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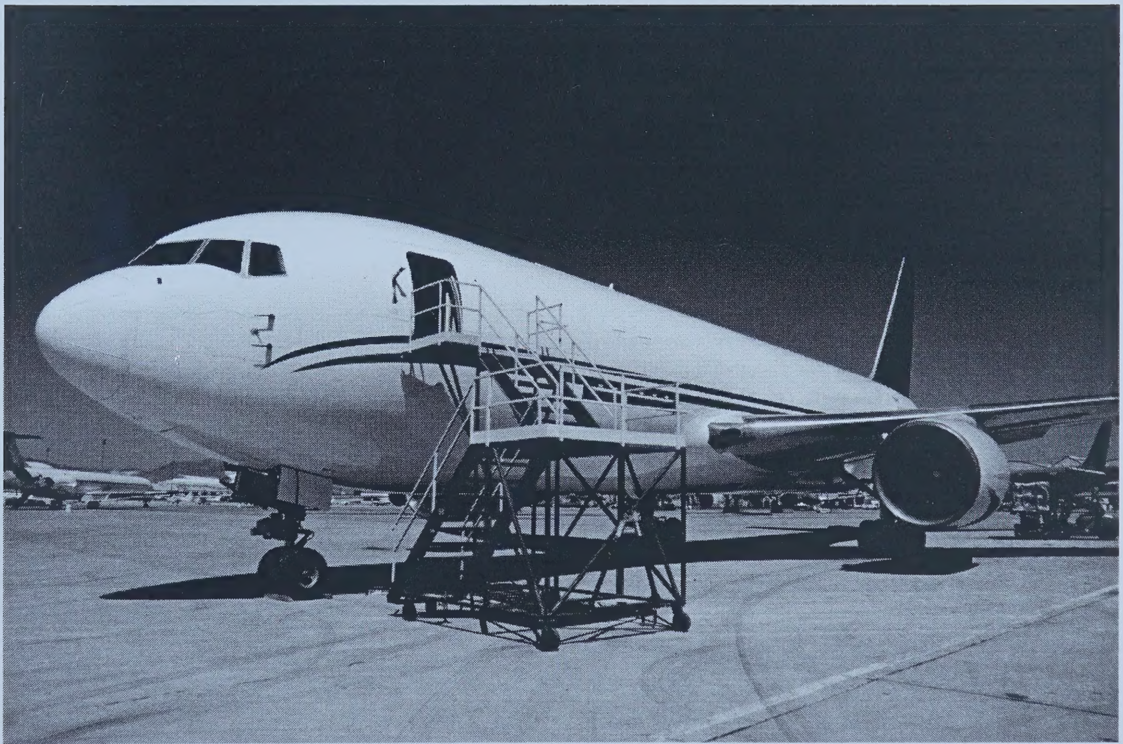

IAT AIR CARGO FACILITIES INCOME FUND
ANNUAL REPORT
For Year Ended December 31, 2008

IAT AIR CARGO FACILITIES INCOME FUND

IAT Air Cargo Facilities Income Fund (the "Fund") was created as an unincorporated, limited-purpose trust under the laws of the Province of British Columbia pursuant to a Declaration of Trust dated March 15, 1997. On October 20, 2008, unitholders of the Fund adopted an Amended and Restated Declaration of Trust pursuant to which the Fund became an open-ended, mutual fund trust .

The Fund holds all of the common shares and subordinated notes of International Aviation Terminals Inc. (the "Company" or "IAT"), all of the common shares of IAT Management GP Ltd., and all of the Limited Partnership units of IAT Management Limited Partnership.

IAT is in the business of owning and leasing buildings that are designed for use by businesses involved in air transport services including air cargo and aircraft maintenance. IAT leases land at airports in Vancouver, Calgary, Edmonton, Saskatoon and Winnipeg under long-term ground leases from either the respective airport authorities or the Government of Canada in these cities.

Units of the Fund are traded on the Toronto Stock Exchange under the symbol ACF.UN.

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Some of the information included in this Annual Report contains forward-looking statements. Such statements are made in reliance on this cautionary statement and the "safe harbour" provisions of Section 138.4 of the Securities Act (Ontario) and similar legislation in other jurisdictions. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those in the forward-looking statements and investors should not rely on the forward-looking statements as predictions of future events. The events or circumstances reflected in forward-looking statements might not occur. Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indicators of whether, or the time at which, such performance or results will be achieved. There is a significant risk that estimates, predictions, expectations, forecasts, conclusions and projections will not prove to be accurate, that assumptions may not be correct and that actual results may differ materially from such estimates, predictions, expectations, forecasts, conclusions or projections.

Forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "should", "seeks", "approximately", "intends", plans", "pro forma", "estimates" or "anticipates", or the negative of these words and phrases, or similar words or phrases. Forward-looking statements can also be identified by discussions of strategy, plans or intentions. There is no assurance that the events or circumstances reflected in forward-looking statements will occur or be achieved. Forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and may not be realized.

The Fund's success also depends upon economic trends generally, various market conditions and fluctuations and those other risk factors discussed under the heading "Risk Factors" of the Fund's Annual Information Form filed on SEDAR at www.sedar.com. Investors are cautioned not to place undue reliance on forward-looking statements, which are based on what management believes are reasonable assumptions in light of information currently available and speak as of the date of this report or as of the dates indicated in the statements. All forward-looking statements of the Fund or IAT, including those set out in this Annual Report, are qualified in their entirety by this cautionary statement. The Fund and IAT assume no obligation to update or supplement forward-looking statements.

IAT AIR CARGO FACILITIES INCOME FUND
HIGHLIGHTS

(Canadian dollars in thousands, except square feet data, and per trust unit data)	Years Ended December 31, 2008	2007
Financial position		
Net investment in income properties	$ 56,929	$ 60,460
Mortgage loans	14,031	14,961
Unitholder's equity	36,798	39,200
Operating results		
Rental revenues	$ 18,467	$ 17,118
Operating costs and leasing and marketing fees	10,884	9,767
Adjusted EBITDA (1)	5,923	6,981
Net earnings and comprehensive earnings	1,637	3,016
Funds from operations (FFO) (2)	4,821	5,735
Year-end occupancy	88.4%	86.8%
Average occupancy	87.1%	83.3%
Rentable square feet	1,141,263	1,141,263
Cash position		
Cash and cash equivalents - beginning of the year	$ 5,329	$ 6,159
Change in cash and cash equivalents	(1,903)	(830)
Cash and cash equivalents - end of the year	3,426	5,329
Distributions payable December 31	(488)	(1,254)
Cash available for operations (3)	$ 2,938	$ 4,075
Unitholders' equity		
Unitholders' equity - opening balance	$ 39,200	$ 41,040
Earnings for the year	1,637	3,016
Refundable taxes	1	(50)
Distributions declared to unitholders	(4,040)	(4,806)
Unitholders' equity - closing balance	$ 36,798	$ 39,200
Total distributions declared per trust unit	$ 0.58	$ 0.69

Notes:

(1) Adjusted EBITDA is not a recognized measure under Canadian generally accepted accounting principles ("GAAP"). The Fund's method of calculating Adjusted EBITDA may differ from other issuers and is not to be construed as an alternative to earnings determined in accordance with GAAP. See Management's Discussion and Analysis of Financial Condition and Results of Operations for the definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to cash, a GAAP measure.

(2) Funds From Operations ("FFO") is not a recognized measure under GAAP. The Fund's method of calculating FFO may differ from other issuers and is not to be construed as an alternative to earnings determined in accordance with GAAP. See Management's Discussion and Analysis of Financial Condition and Results of Operations for the definition of FFO and a reconciliation of FFO to earnings, a GAAP measure.

(3) Cash available for operations is not a recognized measure under GAAP. Cash available for operations is defined as cash at the period end less the distribution to be paid to unitholders in the following month. Management believes this to be an appropriate supplemental measure because cash available for operations represents cash that is available after distributions are paid. However, cash available for operations should not be viewed as an alternative measure of cash since it does not represent cash at the balance sheet date. Further, cash available for operations may not be comparable to that of other real estate issuers. The financial highlights above show a reconciliation of cash available for operations to cash, a GAAP measure.

MESSAGE TO UNITHOLDERS

We are pleased to provide you with the IAT Air Cargo Facilities Income Fund Annual Report for the year ended December 31, 2008.

This year marked the beginning of important functional and strategic changes at the Fund including a takeover offer by FrontFour Capital Group LLC ("FrontFour") resulting in FrontFour controlling approximately 44.5% of the units of the Fund (the "Trust Units" or "Units"), the addition of two new board members and the announcement of the internalization of the Fund's property management and administration functions from AMB Property Canada Ltd. ("AMB Canada"). The transition from AMB Canada was completed on February 27, 2009 and saw the appointment of a new executive team.

During 2008, we once again focused on several key areas including occupancy. Although air cargo volumes at Vancouver International Airport, one of our major markets, declined by approximately 6.6% in 2008, we were able to leverage relationships to increase occupancy. At December 31, 2008, the occupancy rate was 88.4%, up 160 basis points from year-end 2007 and 560 basis points from year-end 2006, marking the fifth straight year-end with occupancy rate increases. We were also successful in attaining a 10 year land and building lease extension at one of our properties in Richmond at 4840 Miller Road.

Management continued to focus on cash flows during the year and on conserving cash to fund our capital improvements and leasing requirements deemed necessary to improve the functionality of the buildings and the marketability of the available space. During 2008, we invested approximately \$0.6 million of \$1.1 million committed in upgrades to the 4840 Miller Road property in Richmond, British Columbia, pursuant to the new land and building lease agreement signed in the year and continued our long-term program to replace wooden dock doors with durable and energy efficient metal doors and upgrade roofs and parking lots. In 2009, management intends to continue the capital improvement program including upgrades that will improve energy efficiency and reduce operating costs over the long-term.

For 2009, given the current market disruption, declining air cargo volumes and uncertainty in the global economy, management remains focused on the fundamentals including maintaining a strong balance sheet, ensuring revenue stability through a broad base of high-quality tenants under long-term contracts and continuing ongoing communication with current and potential tenants to ensure high occupancy.

For 2008, the Fund reported consolidated earnings of \$1.6 million, or \$0.23 per Unit; adjusted earnings before interest, tax, amortization and accretion expenses of \$5.9 million, or \$0.85 per Unit; and funds from operations of \$4.8 million, or \$0.69 per Unit. The total distribution declared in 2008 was \$4.0 million, or \$0.58 per Unit. The decline in earnings and distribution is primarily a result of approximately \$1.0 million in financial advisory and legal expenses pertaining to the takeover offer by FrontFour and investigating capital investment opportunities that occurred in 2008.

On behalf of the Trustees, I would like to thank our fellow unitholders for your continued support. We look forward to meeting with you at the Annual General Meeting of Unitholders of the Fund to be held at 2:00 p.m. on June 15, 2009, at IAT's offices in Richmond, British Columbia.

Respectfully submitted on behalf of the Trustees,

W. John Dawson

W. John Dawson
Chairman, IAT Air Cargo Facilities Income Fund
March 16, 2009

FUND STRUCTURE

IAT Air Cargo Facilities Income Fund was created as an unincorporated, limited-purpose trust under the laws of the Province of British Columbia pursuant to a Declaration of Trust dated March 15, 1997. On October 20, 2008, unitholders of the Fund adopted an Amended and Restated Declaration of Trust pursuant to which the Fund became an open-ended, mutual fund trust. As at December 31, 2008, the Fund had 6,966,368 Trust Units outstanding.

As at December 31, 2008, the Fund owned all of the common shares (the "Shares") and \$54.9 million in aggregate principal amount of unsecured subordinated notes of IAT (the "Notes"), consisting of \$1.9 million principal amount of subordinated notes (the "Senior Subordinated Notes") due September 30, 2010 and \$53.0 million principal amount of subordinated notes (the "Subordinated Notes") due June 10, 2027. During 2008, IAT repaid \$1.0 million of the principal amount of the Senior Subordinated Notes. The Fund also owns all of the common shares of IAT Management GP Ltd. ("IAT GP") and all of the Limited Partnership units of IAT Management Limited Partnership ("IAT Management LP" or the "Management Partnership"). IAT GP was established in 2008 to be the general partner in IAT Management LP, and IAT Management LP was established in 2008 to provide management and administrative services to the Fund upon transition of those services from AMB Canada.

IAT leases space in 18 air cargo facility buildings to businesses operating in the air cargo business and other aviation related businesses. The Fund's principal office is located at Suite 2000 – 5000 Miller Road, Richmond, British Columbia V7B 1K6.

The Fund does not carry on any active business. Prior to adopting the Amended and Restated Declaration of Trust, the Fund was restricted to holding the Shares and Notes of IAT and, on a temporary basis, cash and short-term investments. After adoption of the Amended and Restated Declaration of Trust by unitholders on October 20, 2008, the Fund was permitted to, among other things, own other forms of investment vehicles.

The affairs of the Fund are supervised by five trustees. The affairs and operations of IAT and IAT GP are supervised by a common Board of Directors while management is provided by the Management Partnership. Management in 2008 was provided under certain management agreements made with AMB Canada, an affiliate of AMB Property, L.P. ("AMB"). In the first quarter of 2009, the Fund internalized the management of the Fund whereby the Fund's asset management and operations were assumed from AMB Canada by IAT Management LP. Unless the context requires otherwise, the terms "we", "us" and "our" refer to the Fund, IAT and their other controlled subsidiaries.

The Fund is a taxable trust under the *Income Tax Act* (Canada) and is subject to taxation on its income for the year less the portion paid or payable to its unitholders. Since all income is paid or payable to the unitholders in the year, the Fund has no taxable income.

Distributions paid by the Fund are generally taxable in the hands of the unitholders. They are comprised of the interest and dividend income received by the Fund and, for the years 1997 through 2010, will also include an amount equivalent to the amortized portion of costs of issuance of the Trust Units which, if treated as a reduction of the adjusted cost base of the unitholders' Trust Units, will be non-taxable.

Upon the disposition or deemed disposition of a Trust Unit, the unitholder will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition are greater (or less) than the adjusted cost base of the Trust Unit and any reasonable costs of disposition.

Specified Investment Flow Through (SIFT) Tax

On June 22, 2007, legislation to effect changes to the Canadian federal taxation of certain publicly traded trusts and limited partnerships ("specified investment flow throughs" or "SIFTs") received Royal Assent and became law. Under the legislation, an income trust will qualify for an exemption (the "REIT Exemption") from the SIFT tax if it is resident in Canada throughout the taxation year and meets the following conditions:

(a) the trust at no time in the year holds any non-portfolio property other than "qualified REIT property", which includes real property situated in Canada and other "real or immovable property", the latter of which includes securities in other entities that satisfy the four conditions herein;

(b) not less than 95% of the trust's revenues for the year are derived from (i) rent from real or immovable properties, (ii) interest, (iii) capital gains from dispositions of real or immovable properties, (iv) dividends, and (v) royalties;

(c) not less than 75% of the trust's revenues for the year are derived from rents from, interest from mortgages or hypothecs on, or capital gains from the disposition of, real or immovable properties situated in Canada; and

(d) at no time in the year is the total fair market value of real or immovable properties situated in Canada, cash, or debt obligations issued by Canadian governments and other qualifying entities owned by the trust less than 75% of the trust's equity value at that time.

If the Fund qualifies as a real estate investment trust (a "REIT") under the legislation, the Fund will not be subject to the SIFTs tax. However, if the Fund does not qualify as a REIT, commencing January 1, 2011, tax will be payable by the Fund on its income as if it were a publicly listed corporation and distributions by the Fund will be subject to tax (and eligible for dividend tax credit treatment) as if they were dividends of a publicly listed corporation. Such failure to qualify for the REIT Exemption could be expected to reduce distributions that the Fund would otherwise be able to pay after January 1, 2011.

If it is determined that the Fund does not qualify for the REIT Exemption, the Fund will consider: (a) undergoing a restructuring to seek to qualify for the REIT Exemption; (b) remaining as an income trust and paying the SIFT tax; or (c) converting to a corporation under draft legislation (introduced by the Canadian government on July 14, 2008) that is designed to permit a tax-free conversion of an income fund from a trust to a corporation.

The Canada Revenue Agency (the "CRA") has not issued an interpretation bulletin on the specific issue of whether a SIFT, such as the Fund, that is a mutual fund trust and holds shares and debt obligations of a corporation (a "trust-over-corporation income fund"), would or would not qualify for the REIT Exemption. Accordingly, there is a risk that the CRA may take the position that, although the Fund may otherwise satisfy the requirements of the REIT Exemption, the Fund does not qualify for the REIT Exemption because a significant portion of its income consists of interest paid by IAT on the Notes rather than direct income from real estate.

The Fund expects that this issue will not arise, and that the Fund will qualify for the REIT Exemption, if IAT's assets were held by a limited partnership or subsidiary trust owned directly by the Fund and the Fund received partnership or trust distributions directly from that limited partnership or trust. Following adoption of the Amended and Restate Declaration of Trust, the Fund now has the ability to own other forms of investment vehicles, which may facilitate a restructuring in order to seek to qualify for the REIT Exemption. Any such restructuring may be complex and costly and will likely require an advance tax ruling from the CRA. Accordingly, there can be no assurance that such a restructuring, if required, will be successful.

The Fund is continuing to monitor developments with respect to this legislation and, if necessary, may seek clarification from the federal government as to the Fund's status in relation to the REIT Exemption.

Management of IAT

During 2008

IAT contracted its day-to-day property management and leasing and marketing activities to AMB Canada pursuant to a property management agreement (the "Property Management Agreement") and a leasing and marketing agreement (the "Leasing and Marketing Agreement" and together with the Property Management Agreement, the "Agreements"), each of which provided for an automatic renewal for a further ten-year term after the first ten year term that was to expire on September 14, 2015.

The fees payable for AMB Canada's services under the Property Management Agreement and the Leasing and Marketing Agreement were 5.75% and 2.1%, respectively, of the gross receipts of IAT. While the property management fees were recoverable from tenants, the leasing and marketing fees were not. AMB Canada was also entitled, when applicable, to a fee equal to 6% of the cost of construction of certain improvements to leased premises, which was also not recoverable from tenants and a 0.9% acquisition fee on the purchase price of any property that IAT acquired pursuant to the right of first offer under the terms of a non-competition agreement that AMB had entered into with the Fund and IAT.

Under the terms of the Agreements during the first 10-year term, IAT was granted a no fault termination right in the event of a transaction that resulted in a change of control of IAT or, with respect to particular properties, a change of beneficial ownership of any of IAT's properties. During the second 10 year term, IAT had the right to terminate at any time with 90 day's notice. A termination fee would have been payable by IAT if such a termination resulted in the remaining properties generating an annual management fee of less than $0.8 million. Any such termination fee would have been based on a 2.25 multiple of the basic management fees payable for the four most recently completed fiscal quarters. No other amount would have been payable by IAT in respect of any such termination for the costs and expenses that may have been incurred by AMB Canada as a result of such termination, including AMB Canada's obligations to its employees. AMB Canada could have terminated the Property Management Agreement at any time with at least one year's prior written notice.

In the third quarter of 2007, IAT also contracted its operations and maintenance activities to AMB Canada pursuant to an operations and maintenance agreement (the "Operations and Maintenance Agreement"). Pursuant to the Operations and Maintenance Agreement, either party could exercise a 60-day termination clause to terminate the Operations and Maintenance Agreement.

In the fourth quarter of 2008, AMB and IAT agreed to terminate the Agreements and the Operations and Maintenance Agreement upon the closing of the transition to internalize the management of the Fund.

2009 and beyond

In December 2008, the Fund announced its intention to internalize management of the Fund whereby the asset management and operations of IAT, including property management, leasing, marketing, operations and maintenance, and Fund administration services were to be assumed from AMB Canada by IAT Management LP with the transition and asset transfer to be finalized on or before March 31, 2009. No termination fee was required to be paid by either AMB Canada or IAT, however IAT was required to pay a nominal purchase price to AMB for the net value of identified office assets, less outstanding vacation entitlements, plus liabilities associated with contracts and operations after the time of closing.

On February 27, 2009, the management transition and asset transfer was completed and AMB Canada ceased to be involved with the Fund's operations.

In connection with the transfer, IAT Management LP assumed the Agreements and the Operations and

Maintenance Agreement from AMB. Accordingly, IAT Management LP will charge IAT property management fees and leasing and marketing fees of 5.75% and 2.1%, respectively, of the gross receipts of IAT. While the property management fees are recoverable from tenants, the leasing and marketing fees are not. IAT Management LP will also charge IAT for operations and maintenance fees based on a contracted rate per square foot, which is recoverable from tenants.

The information contained in this Annual Report concerning the operations and financial condition and results of IAT is provided by IAT.

OPERATIONS OF IAT

IAT is in the business of owning and leasing buildings that are designed for use by businesses involved in air transport services including air cargo and aircraft maintenance. IAT's properties are constructed on land leased at airports in Vancouver, Calgary, Edmonton, Saskatoon and Winnipeg under long-term ground leases from either the respective airport authorities or the Government of Canada in these cities.

IAT controls approximately 1,141,263 square feet in 18 buildings on land leased by IAT at five airports. At December 31, 2008, the properties were 88.4% leased to 132 tenants. This represents an improvement from the 2007 year end occupancy level of 86.8%. Eleven of the properties, comprising approximately 741,000 square feet of space are located at the Vancouver International Airport. A 52,000 square foot building in Richmond, British Columbia, primarily leased by one tenant, is owned by a joint venture company in which IAT has a 50% interest.

IAT's customers operate businesses within the air cargo industry as well as within the aircraft maintenance industry. These tenants include passenger airlines (including Air Canada, WestJet and Air Transat), integrated freight carriers (including UPS, and DHL International), all-cargo carriers (including Cargojet), air cargo handlers (including Swissport, Mega International and Menzies Aviation), freight forwarders (including UPS-SCS, Schenker of Canada, Nippon and Yusen Air), customs brokers, government agencies and others. No tenant is responsible for more than 8% of IAT's total revenue. In 2008, 24 of IAT's tenants occupied space in IAT's buildings at more than one airport.

These businesses generally require direct access to airport infrastructure such as runways, passenger terminals, taxiways and secure service roads. Most of IAT's buildings are "airside" (buildings that are contiguous to or have direct access to airport infrastructure). Generally, "airside" buildings do not compete directly for tenants with "non-airside" buildings (buildings lacking such access). Consequently, IAT's results are more sensitive to the level of activity in the aviation industry than they are to the overall real estate cycle.

IAT's air cargo buildings are specifically designed for the needs of the air cargo industry. They have a modular design that permits a variety of configurations for tenants. Areas for lease can be expanded or reduced depending upon the needs of current and potential tenants, allowing IAT to respond to prospective tenant requirements using currently vacant space. A combination of specialized facilities and limited availability of suitable land means that "airside" buildings generally achieve rents above those paid for industrial or warehouse buildings in non-airport locations.

Typically, IAT enters into leases with tenants for terms of one to ten years. In 2008, approximately 15% of net leaseable area was due to expire or became due for renewal at the tenant's option, of which approximately 82% was renewed or in negotiations to be renewed.

Unless otherwise indicated, all information in this management's discussion and analysis of financial condition and results of operations is effective as of March 16, 2009, all dollar amounts are in Canadian dollars and all audited numbers have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Caution concerning forward-looking statements

Some of the information included in this Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. Such statements are made in reliance on this cautionary statement and the "safe harbour" provisions of Section 138.4 of the Securities Act (Ontario) and similar legislation in other jurisdictions. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those in the forward-looking statements and investors should not rely on the forward-looking statements as predictions of future events. The events or circumstances reflected in forward-looking statements might not occur. Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indicators of whether, or the time at which, such performance or results will be achieved. There is a significant risk that estimates, predictions, expectations, forecasts, conclusions and projections will not prove to be accurate, that assumptions may not be correct and that actual results may differ materially from such estimates, predictions, expectations, forecasts, conclusions or projections.

Forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "should", "seeks", "approximately", "intends", "plans", "pro forma", "estimates" or "anticipates", or the negative of these words and phrases, or similar words or phrases. Forward-looking statements can also be identified by discussions of strategy, plans or intentions. There is no assurance that the events or circumstances reflected in forward-looking statements will occur or be achieved. Forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and may not be realized.

The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- *failure to qualify or maintain status as a real estate investment trust ("REIT") under Canadian income tax legislation;*
- *effect of the current economic conditions in the aviation industry, or in the real estate sector;*
- *the duration of the downturn in Canada's economy and real estate conditions, or in the cities in which IAT's properties are located;*
- *actions of airport authorities at the airports on which IAT has facilities;*
- *non-renewal of ground leases by airport authorities or renewal at higher than expected rent;*
- *non-renewal of leases by customers or renewal at lower than expected rent;*
- *inability of customers to meet their lease obligations;*
- *increased operating costs or greater than expected capital expenditure requirements;*
- *difficulties in identifying properties to acquire and in effecting acquisitions on advantageous*

terms and the failure of acquisitions to perform as we expect;

- *risks associated with using debt to fund acquisitions or investment opportunities, including re-financing risks;*
- *failure to obtain necessary financing, or refinancing of existing debt;*
- *risks associated with equity and debt securities financings and issuances (including the risk of dilution);*
- *increases in real property tax rates;*
- *risk associated with any tax structuring;*
- *increases in interest rates and operating costs or greater than expected capital expenditures;*
- *losses in excess of IAT's and the Fund's insurance coverage;*
- *unknown liabilities acquired in connection with IAT's properties or otherwise;*
- *changes in local, provincial and federal regulatory requirements; and*
- *environmental uncertainties*

The Fund's success also depends upon economic trends generally, various market conditions and fluctuations and those other risk factors discussed under the heading "Risk Factors" in the Fund's Annual Information Form filed on SEDAR at www.sedar.com. Investors are cautioned not to place undue reliance on forward-looking statements, which are based on what management believes are reasonable assumptions in light of information currently available and speak as of the date of this report or as of the dates indicated in the statements. All forward-looking statements of the Fund or IAT, including those set out in this Annual Report, are qualified in their entirety by this cautionary statement. The Fund and IAT assume no obligation to update or supplement forward-looking statements.

General

The information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations concerning the operation, financial condition and results of the Fund and IAT reviews significant developments in the consolidated results of the Fund and IAT during the year ended December 31, 2008. Additional information relating to the Fund and IAT is contained in the Fund's Annual Information Form and the Consolidated Financial Statements of the Fund and IAT that are available through the internet at www.sedar.com.

IAT Air Cargo Facilities Income Fund (the "Fund") was created as an unincorporated, limited-purpose trust under the laws of the Province of British Columbia pursuant to a Declaration of Trust dated March 15, 1997. On October 20, 2008, unitholders of the Fund adopted an Amended and Restated Declaration of Trust pursuant to which the Fund became an open-ended, mutual fund trust.

The Fund owns all of the common shares (the "Shares") and $54.9 million in aggregate principal amount of unsecured subordinated notes (the "Notes") of International Aviation Terminals Inc. (the "Company" or "IAT"), all of the common shares of IAT Management GP Ltd. ("IAT GP") and all of the Limited Partnership units of IAT Management Limited Partnership ("IAT Management LP" or the "Management Partnership").

The units of the Fund (the "Trust Units" or "Units") are traded on the Toronto Stock Exchange under the symbol ACF.UN. As of March 16, 2009, 6,966,368 Trust Units were issued and outstanding. The Fund does not carry on any active business and derives all its income from the Shares and Notes of IAT and, effective February 27, 2009, its 99.999% share of profit from IAT Management LP. Accordingly, the Fund is entirely dependent on the results of operations of IAT and IAT Management LP.

IAT is in the business of owning and leasing buildings that are designed for use by businesses involved in air transport services including air cargo and aircraft maintenance. IAT leases land at airports in Vancouver, Calgary, Edmonton, Saskatoon and Winnipeg under long-term ground leases from either the respective airport authority or the Government of Canada in these cities. Until February 27, 2009, the management of IAT was provided under certain management and governance agreements made with AMB Canada, after which IAT's management and the Fund's governance were internalized through the Fund's wholly-owned subsidiary IAT Management LP, and a new executive team was installed. Effective February 27, 2009, the internalization of management was completed and AMB Canada was no longer involved in the day to day operations of IAT. No termination fee was required to be paid by IAT or AMB as a result of the internalization of management, as AMB and IAT agreed to an early termination of the management agreements.

As of December 31, 2008, IAT leases 1,141,263 square feet in 18 buildings. The properties were 88.4% leased as at December 31, 2008, as compared to 86.8% leased as at December 31, 2007 and 82.8% leased at December 31, 2006. Average occupancy for the years ended December 31, 2008, 2007 and 2006 were 87.1%, 83.3% and 84.2%, respectively.

IAT's revenues and earnings are affected primarily by occupancy rates of its facilities, the lease rates received from tenants and the recovery from tenants of its building operating costs. The amount of cash available for payment of interest and dividends to the Fund from IAT is also affected by these same factors, as well as the amount, timing and recoveries of major recurring maintenance and capital expenditures. The occupancy, lease rates and recoveries are dependent on demand for the movement of air freight and the overall airline industry. Similarly, the demand for the movement of air freight is dependent upon the overall economy and international trade.

Acquisition of Units by FrontFour Capital Group LLC

In August 2008, FrontFour Capital Group LLC ("FrontFour") and its affiliates acquired 2,415,553 Trust units at a price of $7.40 per Unit. FrontFour and its affiliates now hold an aggregate of 3,098,653 Units, representing approximately 44.5% of the outstanding Trust Units.

A special meeting of unitholders was held on October 20, 2008, at which unitholders approved an amendment and restatement of the Declaration of Trust. Pursuant to the Amended and Restated Declaration of Trust, the Fund became an open-ended, mutual fund trust. In addition, the Amended and Restated Declaration of Trust expanded the operations and activities of the Fund to include, among other things, the ability to repurchase securities issued by the Fund, to borrow, to provide guarantees, to grant security and to appoint non-resident trustees provided that a majority of the trustees are residents of Canada.

Distribution Policy

The Fund determines a minimum annual distribution or determines a minimum quarterly distribution for the upcoming quarter, to be paid in quarterly installments to unitholders, based upon the anticipated earnings, cash flow, and capital reserves of IAT and expenses of the Fund. The Fund receives quarterly interest payments on the Notes and any dividends that may be required to meet the quarterly distribution to unitholders from IAT and, effective February 27, 2009, its 99.999% share of profit from IAT Management LP. The Fund distributes to unitholders funds received from IAT and IAT Management LP, net of the Fund's expenses. Management retains the discretion to adjust distributions for capital requirements in the Fund that maximize unitholder value.

The Senior Subordinated Notes carry a fixed interest rate of 10% per annum. The interest on the Subordinated Notes is determined quarterly at an amount equal to the amount by which 92.5% of IAT's earnings before interest, amortization, impairment charges and accretion and after provision for current taxes payable exceeds debt service requirements (principal and interest) on mortgage debt and the Senior Subordinated Notes, subject to a minimum rate of 6% per annum and a maximum rate of 12.5% per annum.

Based on historical and anticipated cash needs, IAT retains a reserve for capital expenditures and working capital and other requirements. If IAT concludes that it has additional cash beyond what it needs for expected capital expenditures and working capital requirements, the directors of IAT may, in their discretion, declare a dividend to the Fund, which would then be available for distribution by the Fund to unitholders.

The Fund's quarterly distribution was $0.07 per Unit for the fourth quarter of 2008, reducing the total distribution for the year 2008 to $0.58 per Unit, compared to 2007's total distribution of $0.69 per Unit, and represents a decrease of $0.09 per Unit from the previously announced planned annual distribution of $0.68 per Unit based on IAT's 2008 Business Plan.

Of the December 31, 2008 cash and cash equivalents balance of $3.4 million, $0.5 million was distributed to unitholders in January 2009 and $1.4 million is expected to be used to fund capital expenditures in 2009, leaving $1.5 million available for acquisitions, working capital and other requirements. The anticipated total capital expenditure for 2009 is estimated based on current information. No assurance can be given that the estimated amounts may not differ depending on actual commitments made in 2009.

Quarterly distributions are payable to unitholders of record on the last day of each calendar quarter and are expected to be paid on or about the 15th day of January, April, July and October of each year. As at December 31, 2008, there were 6,966,368 Units issued and outstanding, the same number of Units issued and outstanding as at December 31, 2007. The following table sets forth the composition of the distributions declared and paid to unitholders for each quarter and in aggregate for the years 2008 and 2007 and on a per Unit basis. Per Unit amounts are approximate.

Summary of Quarterly Distributions Declared by the Fund

(Canadian dollars in thousands, except per unit data)	Three Months Ended March 31,		Three Months Ended June 30,		Three Months Ended September 30,		Three Months Ended December 31,		Total	
	$	$ per unit(3)	$	$ per unit(3)	$	$ per unit(3)	$	$ per unit(3)	$	$ per unit(3)
2008										
Interest income from IAT	1,220	0.18	1,250	0.18	1,284	0.18	1,014	0.14	4,768	0.68
Distributions:										
Interest income net of expenses(1)	1,116	0.16	1,182	0.17	975	0.14	366	0.05	3,639	0.52
Dividend from IAT	68	0.01	2	-	209	0.03		-	279	0.04
Non taxable return of capital(2)	-	-	-	-	-	-	122	0.02	122	0.02
Total distribution declared	**1,184**	**0.17**	**1,184**	**0.17**	**1,184**	**0.17**	**488**	**0.07**	**4,040**	**0.58**
2007										
Interest income from IAT	1,237	0.18	1,105	0.16	1,161	0.17	1,270	0.18	4,773	0.69
Distributions:										
Interest income net of expenses(1)	1,164	0.17	1,076	0.15	1,063	0.15	1,016	0.15	4,319	0.62
Dividend from IAT	20	-	108	0.02	121	0.02	238	0.03	487	0.07
Total distribution declared	**1,184**	**0.17**	**1,184**	**0.17**	**1,184**	**0.17**	**1,254**	**0.18**	**4,806**	**0.69**

Notes:

(1) Distributions are net of general and administrative expenses of the Fund as of the distribution declaration date.
(2) The return of capital is determined and apportioned annually as at December 31.
(3) Per unit data is rounded to the nearest cent.

During 2008, the Fund declared distributions of approximately $130,000 in excess of distributable income. This return of capital is the result of a difference between estimated fourth quarter expenses and the actual expenses that were incurred, which were higher due to finance and legal fees incurred to explore capital investment opportunities and to respond to FrontFour's takeover bid. The variance was not considered significant enough to warrant changes to the distributions already declared and a portion of the fourth quarter distribution was therefore funded from the Fund's cash reserve.

Summary of Distributions Declared by the Fund Compared to Net Earnings and Net Cash (Used In) Provided by Operating Activities

(Canadian dollars in thousands, except per unit data)	Three Months Ended December 31, 2008		For the Years Ended December 31, 2008		2007		2006	
	$	$ per unit(1)	$	$ per unit(1)	$	$ per unit(1)	$	$ per unit(1)
Net cash provided by operating activities	2,166	0.31	4,321	0.62	5,412	0.78	5,353	0.77
Net earnings and comprehensive earnings	354	0.05	1,637	0.23	3,016	0.43	3,657	0.52
Distributions declared	488	0.07	4,040	0.58	4,806	0.69	4,668	0.67
Excess of net cash provided by operating activities over distribution declared	1,678	0.24	281	0.04	606	0.09	685	0.10
(Shortfall) of net earnings and comprehensive earnings over distribution declared	(134)	(0.02)	(2,403)	(0.34)	(1,790)	(0.26)	(1,011)	(0.15)

Note:

(1) Per unit data is rounded to the nearest cent.

In 2006 and 2007, the quarterly distributions to unitholders were established annually at the beginning of the year. Typically quarterly distributions are not adjusted for quarterly earnings fluctuations or timing differences, except where the trustees conclude that an adjustment is appropriate. Distributions declared for the twelve month period ended December 31, 2008 were approximately $0.3 million less than cash provided by operating activities for the same period. Cash not distributed to unitholders from operating activities is held in reserve for future investment in income properties. For the twelve month periods ended December 31, 2008 and 2007, cash provided by operating activities exceeded cash distributions declared by $0.3 million and $0.6 million respectively, and cash distributions declared exceeded net earnings and comprehensive earnings by $2.4 million and $1.8 million respectively. The shortfall from net earnings and comprehensive earnings is due to significant non-cash transactions including amortization and accretion expense less future income tax recovery of $3.2 million and $2.8 million.

A distribution of $0.10 per Unit is expected to be payable on April 15, 2009 to unitholders of record at the close of business on March 31, 2009. The increase in the amount of the distribution from the $0.07 per Unit distribution declared in the fourth quarter of 2008 is due to a return to more normal expenses of the Fund as compared to earlier periods during 2008. At this time, the Fund does not anticipate the suspension of cash distributions in the foreseeable future.

The following cash distributions on the Trust Units were paid during the years ended December 31, 2008 and 2007. Per Unit amounts are approximate.

Summary of Quarterly Distributions Paid by the Fund

	Three Months Ended March 31,		Three Months Ended June 30,		Three Months Ended September 30,		Three Months Ended December 31,		Total	
(Canadian dollars in thousands, except per unit data)	$	$ per unit[1]	$	$ per unit[1]	$	$ per unit[1]	$	$ per unit[1]	$	$ per unit[1]
2008										
Interest income net of expenses	1,016	0.15	1,116	0.16	1,182	0.17	975	0.14	4,289	0.62
Dividend from IAT	238	0.03	68	0.01	2	-	209	0.03	517	0.07
Total distribution paid	**1,254**	**0.18**	**1,184**	**0.17**	**1,184**	**0.17**	**1,184**	**0.17**	**4,806**	**0.69**
2007										
Interest income net of expenses	1,507	0.22	1,164	0.17	1,076	0.15	1,063	0.15	4,810	0.69
Dividend from IAT	-	-	20	-	108	0.02	121	0.02	249	0.04
Non taxable return of capital	26	-	-	-	-	-	-	-	26	-
Total distribution paid	**1,533**	**0.22**	**1,184**	**0.17**	**1,184**	**0.17**	**1,184**	**0.17**	**5,085**	**0.73**

Note:

(1) Per unit data is rounded to the nearest cent.

Operating Results

Highlights

(Canadian dollars in thousands, except lease rate and square feet data)	2008	2007	2006	% Change(1)	% Change(2)
	For the Years Ended December 31,				
Lease activity:					
Lease revenues	$ 9,806	$ 9,364	$ 9,539	4.7%	(1.8%)
Average lease rates	9.37	9.34	9.40	0.3%	(0.6%)
Period end occupancy rate	88.4%	86.8%	82.8%	1.8%	4.8%
Operating cost recoveries	$ 8,661	$ 7,754	$ 7,794	11.7%	(0.5%)
Total rentable square feet (3)	1,141,263	1,141,263	1,141,732	0.0%	(0.0%)

Notes:
(1) Percentage change for the year ended December 31, 2008 from the year ended December 31, 2007.
(2) Percentage change for the year ended December 31, 2007 from the year ended December 31, 2006.
(3) Rental area changes are a result of modifications made to properties in order to meet tenant requirements.

The 88.4% year end occupancy of 2008 marks a 160 basis point increase over December 31, 2007 and a 560 basis point increase over December 31, 2006. IAT's improvement in occupancy over the past three years is due to expansions within the current tenant base as well as the addition of new tenants. Lease revenues of $9.8 million in 2008 were up from revenues of $9.4 million in 2007 and up from revenues of $9.5 million in 2006. The revenue increase in 2008 resulted from both strong renewal activity in the year as well as lease up of previously vacant space. In 2008, IAT accomplished its fifth straight year of period end occupancy growth since 2003 at 73.9%.

(Canadian dollars in thousands)	2008	2007	2006	% Change(1)	% Change(2)
	For the Years Ended December 31,				
Operating activity:					
Building improvements (recoverable)	$ 603	$ 424	$ 683	42.2%	(37.9%)
Tenant and building improvements (not recoverable)	820	464	357	76.7%	30.0%
Total capital expenditures	1,423	888	1,040	60.2%	(14.6%)
Operating costs (3)	10,529	9,434	9,187	11.6%	2.7%
Operating cost recoveries	8,661	7,754	7,794	11.7%	(0.5%)
Operating cost recoveries as a percentage of cost	82.3%	82.2%	84.8%	0.1%	(3.1%)
Leasing and marketing fees	$ 355	$ 333	$ 341	6.6%	(2.3%)
General and administrative costs	1,998	683	718	192.5%	(4.9%)
Amortization and accretion	4,590	4,844	4,914	(5.2%)	(1.4%)
Recovery of income taxes	1,296	2,036	2,407	(36.3%)	(15.4%)

Notes:
(1) Percentage change for the year ended December 31, 2008 from the year ended December 31, 2007.
(2) Percentage change for the year ended December 31, 2007 from the year ended December 31, 2006.
(3) Operating costs include land lease rents, property maintenance, utilities, property management fees, property taxes and facility related insurance costs.

In 2008, IAT continued with its strategic capital investment in cargo facilities. Management believes that these capital investments increase the functionality and marketability of IAT's facilities and improves

long term leasing prospects. IAT invested a total of $1.4 million in building and tenant improvements in 2008 compared with $0.9 million in 2007 and $1.0 million in 2006. The increase of $0.5 million is primarily due to renovations at the 4840 Miller Road facility in Richmond, British Columbia, as required per the land lease renewal in 2008. Per the lease renewal, a total of $1.1 million is committed to be spent on the 4840 Miller Road facility, of which $0.6 million was spent in 2008 with the remaining $0.5 million expected to be incurred in the first quarter of 2009.

Capital investments are broken down into two types: (i) recoverable building improvements, which are reimbursed by tenants, and (ii) non-recoverable building improvements, which are not reimbursed by tenants. Recoverable building improvements in 2008 were relatively consistent to prior years at $0.6 million, up slightly from 2007 at $0.4 million, and down slightly from 2006 at $0.7 million. Non-recoverable tenant and building improvements for the year ended December 31, 2008 were $0.8 million, higher than the $0.5 million in 2007 and $0.4 million in 2006 due to spending at the 4840 Miller Road facility in Richmond, British Columbia.

Refundable and non-refundable capital improvements are directly related to tenant space requirements and include such improvements as dock levelers, lighting upgrades and overhead door replacements, which all serve to increase both the functionality and the energy efficiency of the facilities. Management believes that these types of investments help to keep tenants satisfied with their space and ultimately help to retain them for successive lease terms, ultimately resulting in increased revenues. Management of IAT has made a strategic decision to re-invest in the portfolio infrastructure and it is expected that IAT will continue to invest in both recoverable and non-recoverable building improvements as part of this strategy. The projected expenditure for 2009 is expected to be approximately $1.4 million.

The operating costs for the year 2008 amounted to a total of $10.5 million, compared with $9.4 million in 2007 and $9.2 million in 2006. A large portion of these costs vary with occupancy and reflect the higher occupancy rate in 2008. Other increases are due to higher recoverable utilities, real estate taxes, snow removal and building maintenance costs in the year. Management believes that most expense categories will adjust with inflation and will be reflected in lease rates. However, ground lease rates could increase greater than inflation upon renewal since the rates increase in proportion to land values which have risen significantly in prior years in the corresponding regions in which the IAT facilities are located. Operating cost recoveries for the year ended December 31, 2008 were 82.3%, compared with 82.2% in 2007 and 84.8% in 2006. Operating cost recovery percentage typically mirrors the change in average occupancy for the year, although in 2008, average occupancy increased by 3.6% more than the increase in recovery percentage as a result of IAT incurring a greater percentage of non-recoverable costs, including, leasing, legal fees and maintenance costs prior to occupancy by tenants.

General and administrative expenses include both those of IAT and the Fund and include director and trustee fees, reporting issuer maintenance costs, legal, accounting, and financial advisory fees and allowance for doubtful accounts, net of recoveries of amounts previously written off. For the year ended December 31, 2008, approximately $1.0 million was spent on financial advisory and legal expenses pertaining to the exploration of capital investment opportunities and responding to a takeover offer by an affiliate of FrontFour, of which $0.7 million pertained to financial advisory fees. $0.3 million was spent on legal fees surrounding new company setup costs along with the internalization of management services, $0.2 million was spent on deferred legal costs from 2007 which were expensed in the first quarter of 2008 and, as in prior years, approximately $0.5 million was spent on reporting issuer maintenance and compliance costs. In total, this has contributed to general and administrative expenses of $2.0 million in 2008 (2007 - $0.7 million, 2006 - $0.7 million).

Amortization and accretion expenses for the year ended December 31, 2008 were $4.6 million (2007 - $4.8 million, 2006 - $4.9 million). The reduced amortization in 2008 is due to the assets at one of IAT's facilities in Vancouver becoming fully amortized as at March 31, 2008, concurrent with the expiration of the original land lease term. The lease was extended and there is no amortization related to the new term as the building became the property of the Vancouver Airport Authority, and the lease was not considered to be capital.

The Fund accounts for income taxes using the liability method, where future income taxes are recognized in respect of the expected future income tax consequences attributable to differences between the financial statement carrying values and their respective tax bases. Future income tax assets and liabilities are measured using income tax rates expected to apply when the asset is realized or the liability settled. A change in the substantively enacted tax rates in 2008 resulted in an increase in recoverable income taxes of $0.3 million for the year ended December 31, 2008.

	For the Years Ended December 31,				
(Canadian dollars in thousands, except mortgage term)	2008	2007	2006	% Change[1]	% Change[2]
Financing activity:					
Mortgage loans outstanding at year end	$ 14,031	$ 14,961	$ 15,727	(6.2%)	(4.9%)
Mortgage loans/property net book value	24.6%	24.7%	24.3%	(0.4%)	1.8%
Average remaining mortgage term (years)	4.4	2.0	3.0	120.0%	(33.3%)
Average interest rate at year end	5.6%	7.1%	7.1%	(21.1%)	0.0%
Interest on mortgages, less interest income	$ 582	$ 771	$ 880	(24.5%)	(12.4%)

Notes:
(1) Percentage change for the year ended December 31, 2008 from the year ended December 31, 2007
(2) Percentage change for the year ended December 31, 2007 from the year ended December 31, 2006

As at December 31, 2008, IAT has six mortgages amounting to $7.6 million with scheduled principal amortization at variable interest rates which are 0.5% above the lender's prime rate. The average interest rate for 2008 for these six mortgages was 5.3%. IAT seeks to reduce its interest rate risk by staggering the maturities of its long term debt and maintaining a balance between fixed and variable interest rates. See "Liquidity and Capital Resources" for a summary of mortgage principal payments by period.

The remainder of IAT's mortgage loans are fixed rate mortgages with principal amortization. The decrease of interest on mortgages, less interest income, to $0.6 million for the year 2008 from $0.8 million for the year 2007 and $0.9 million from the year 2006 is primarily due to decreased interest expense related to lower interest rates on the variable rate mortgages, as well as lower outstanding principal balances of mortgages. One of the fixed rate mortgages with principal amortization matures in 2009.

Selected Financial Information

(Canadian dollars in thousands, except per unit data)	For the Years Ended December 31, 2008	2007	2006
Rental revenues	$ 18,467	$ 17,118	$ 17,333
Operating costs and leasing and marketing fees	10,884	9,767	9,528
Net operating income (NOI)[(1)]	7,583	7,351	7,805
Adjusted EBITDA[(2)]	5,923	6,981	7,363
Funds from operations (FFO)[(3)]	4,821	5,735	6,065
Funds from operations per unit	0.69	0.82	0.87
Net earnings and comprehensive earnings	1,637	3,016	3,657
Earnings per unit	0.23	0.43	0.52
Capital expenditures:			
Building improvements [(4)(6)]	603	424	683
Tenant and building improvements [(5)(6)]	820	464	357
Principal paid on mortgages	930	766	625
Fund expenses	1,136	450	371
Distributions declared to unitholders	4,040	4,806	4,668
Distributions declared to unitholders (per trust unit)	0.58	0.69	0.67
Distributions paid to unitholders	4,806	5,085	4,459
Distributions paid to unitholders (per trust unit)	0.69	0.73	0.64
Assets	63,617	68,788	73,362
Mortgage loans	14,031	14,961	15,727
Asset retirement obligations	429	380	438

Notes:

(1) NOI is not a recognized measure under GAAP. The Fund's method of calculating NOI may differ from other issuers and is not to be construed as an alternative to earnings determined in accordance with GAAP. See below for a reconciliation of NOI to earnings, a GAAP measure.
(2) Adjusted EBITDA is not a recognized measure under GAAP. The Fund's method of calculating Adjusted EBITDA may differ from other issuers and is not to be construed as an alternative to earnings determined in accordance with GAAP. See below for a reconciliation of Adjusted EBITDA to cash, a GAAP measure.
(3) FFO is not a recognized measure under GAAP. The Fund's method of calculating FFO may differ from other issuers and is not to be construed as an alternative to earnings determined in accordance with GAAP. See below for a reconciliation of FFO to earnings, a GAAP measure.
(4) These are building improvements which are recoverable from tenants under the terms of the various tenant leases.
(5) Tenant improvements and certain building improvements are not recoverable from tenants.
(6) Capital expenditures are stated on an accrual basis.

Net Operating Income

Net operating income ("NOI"), a supplemental non-GAAP financial measure, is defined as lease revenue, including operating cost recoveries, less operating costs and leasing and marketing fees, and excludes amortization, impairment charges, accretion, general and administrative expenses, interest expense, recovery of income taxes and minority interest's share of earnings. The Fund considers NOI to be an appropriate supplemental performance measure because NOI reflects the operating performance of the real estate portfolio. However, NOI should not be viewed as an alternative measure of financial performance since it does not reflect general and administrative expenses, interest expense, amortization, impairment charges and accretion costs and capital expenditures that could materially impact results from

operations. Further, NOI may not be comparable to that of other real estate issuers, as they may use different methodologies for calculating NOI. The following table provides a reconciliation of NOI to the net earnings and comprehensive earnings of IAT for 2008, 2007 and 2006.

Reconciliation of NOI to Net Earnings and Comprehensive Earnings

(Canadian dollars in thousands)	For the Years Ended December 31, 2008	2007	2006
Net operating income	$ 7,583	$ 7,351	$ 7,805
General and administrative	(1,998)	(683)	(718)
Interest on mortgage loans, less interest income	(582)	(771)	(880)
Amortization and accretion	(4,590)	(4,844)	(4,914)
Recovery of income taxes	1,296	2,036	2,407
Non-controlling interest	(72)	(73)	(43)
Net earnings and comprehensive earnings	$ 1,637	$ 3,016	$ 3,657

Adjusted EBITDA

Adjusted EBITDA, a supplemental non-GAAP financial measure, is defined as earnings before interest expense, income tax, amortization, impairment charges, accretion and non-controlling interest's share of earnings ("Adjusted EBITDA"). Adjusted EBITDA is not a recognized measure under GAAP but is a useful supplemental indicator of cash earned in the operations of IAT and other consolidated entities. The Fund considers Adjusted EBITDA to provide investors relevant and useful information because it permits investors to view income from its operations on an unleveraged basis before the effects of non-cash amortization, impairment charges and accretion. By excluding interest expense and minority interest's share of earnings, Adjusted EBITDA allows investors to measure the Fund's operating performance independent of its capital structure and indebtedness and, therefore, allows for a more meaningful comparison of its operating performance between quarters as well as annual periods and for comparison of its operating performance to that of other issuers, both in the real estate industry and in other industries. The Fund considers Adjusted EBITDA to be a useful supplemental measure for reviewing its comparative performance with other issuers because, by excluding non-cash amortization, impairment charges and accretion expenses, Adjusted EBITDA can help investors compare the performance of a real estate issuer to that of issuers in other industries. As a liquidity measure, the Fund believes that Adjusted EBITDA helps investors to analyze its ability to meet debt service obligations. The Fund uses Adjusted EBITDA in the same manner as the Fund expects investors to when measuring the Fund's operating performance and liquidity; specifically when assessing its operating performance, and comparing that performance to other issuers, both in the real estate industry and in other industries, and when evaluating its ability to meet debt service obligations.

By excluding interest expense, income taxes, amortization, impairment charges, accretion and minority interest's share of earnings when assessing the Fund's financial performance, an investor is assessing the earnings generated by the Fund's operations, but not taking into account the eliminated expenses incurred in connection with such operations. As a result, Adjusted EBITDA has limitations as an analytical tool and should be used in conjunction with the Fund's required GAAP presentations. Adjusted EBITDA does not reflect the Fund's historical cash expenditures or future cash requirements for working capital, capital expenditures or contractual commitments. Adjusted EBITDA also does not reflect the cash required to make interest and principal payments on the Fund's outstanding debt or payments to the minority interest. While Adjusted EBITDA is a relevant and widely used measure of operating performance and liquidity, it

does not represent earnings or cash flow from operations as defined by GAAP and it should not be considered as an alternative to those indicators in evaluating operating performance or liquidity. Further, the Fund's computation of Adjusted EBITDA may not be comparable to Adjusted EBITDA reported by other issuers and is not to be construed as an alternative to earnings determined in accordance with GAAP. The following table provides a reconciliation of Adjusted EBITDA to the cash flow of IAT for 2008, 2007 and 2006.

Reconciliation of Adjusted EBITDA to Cash

	For the Years Ended December 31,		
	2008	**2007**	**2006**
(Canadian dollars in thousands)			
Adjusted EBITDA	$ 5,923	$ 6,981	$ 7,363
Interest on mortgage loans, less interest income	(582)	(771)	(880)
Interest income	(338)	(313)	(276)
Current taxes	(51)	(40)	(37)
Change in non-cash working capital	(631)	(445)	(817)
Net cash provided by operating activities	4,321	5,412	5,353
Cash flow used in investing activities	(398)	(391)	(357)
Cash distributions paid to unitholders	(4,806)	(5,085)	(4,459)
Cash dividends paid to non-controlling shareholder	(90)	-	(60)
Mortgage loan repayments	(930)	(766)	(625)
Net change in cash	(1,903)	(830)	(148)
Cash beginning of year	5,329	6,159	6,307
Cash end of year	$ 3,426	$ 5,329	$ 6,159

Funds From Operations

Funds from operations ("FFO") is a supplemental non-GAAP financial measure of operating performance widely used by the real estate industry. Effective January 1, 2005, the Real Property Association of Canada ("REALPAC"), formerly the Canadian Institute of Public and Private Real Estate Companies, adopted the following revised definition of FFO: "Funds from operations means net income (computed in accordance with GAAP), excluding gains (or impairment provisions and losses) from sales of depreciable real estate and extraordinary items, plus depreciation and amortization, plus future income taxes and after adjustments for equity accounted for entities and non-controlling interests. Adjustments for equity accounted for entities and joint ventures and non-controlling interest are calculated to reflect funds from operations on the same basis as the consolidated properties."

We consider FFO a meaningful supplemental measure of operating performance as it primarily rejects the assumption that the value of real estate investments diminishes predictably over time and it adjusts for items included in GAAP earnings that may not necessarily be the best determinants of operating performance (such as gains or losses on the sale of, and provisions for impairment against, long-lived real estate investments.) IAT's method of calculating FFO is in accordance with REALPAC's recommendations but may differ from other issuers' methods and accordingly may not be comparable to FFO reported by other issuers.

FFO is not a recognized measure under GAAP. While FFO is a relevant and widely used measure of operating performance of real estate investment issuers and other real estate issuers, it does not represent cash flow from operations or net income as defined by GAAP and should not be considered as an

alternative to those measures in evaluating the Fund's liquidity or operating performance. FFO also does not consider the costs associated with capital expenditures related to the Fund's real estate assets nor is FFO necessarily indicative of cash available to fund the Fund's future cash requirements. The following table provides a reconciliation of FFO to the net earnings and comprehensive earnings of IAT for 2008, 2007 and 2006.

Reconciliation of FFO to Net Earnings and Comprehensive Earnings

	For the Years Ended December 31,		
(Canadian dollars in thousands)	2008	2007	2006
Funds from operations	$ 4,821	$ 5,735	$ 6,065
Amortization and accretion	(4,590)	(4,844)	(4,914)
Recovery of future income taxes	1,347	2,076	2,444
Adjustments to derive FFO from consolidated JVs			
Non-controlling interest in earnings	(72)	(73)	(43)
FFO attributable to non-controlling interests	131	122	105
Net earnings and comprehensive earnings	$ 1,637	$ 3,016	$ 3,657

Consolidated Quarterly Financial Results

(Canadian dollars in thousands, except per unit data)	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2008 Total
Lease revenue	$ 2,415	$ 2,431	$ 2,479	$ 2,481	$ 9,806
Operating cost recoveries	2,263	2,139	1,964	2,295	8,661
Total rental revenues	4,678	4,570	4,443	4,776	18,467
Operating costs	2,733	2,564	2,374	2,857	10,529
Non-recoverable selling, general and administrative expenses	392	255	1,180	526	2,353
Earnings before the following	1,553	1,751	889	1,393	5,585
Interest on mortgages, less interest income	163	136	150	133	582
Amortization, impairment charges and accretion	1,198	1,152	1,126	1,114	4,590
Earnings (loss) before income taxes and non-controlling interest	192	463	(387)	146	413
Recovery of income taxes	497	268	278	253	1,296
Non-controlling interest	(3)	(11)	(13)	(45)	(72)
Earnings (loss)	$ 686	$ 720	$ (122)	$ 354	$ 1,637
Earnings (loss) per unit	$ 0.10	$ 0.10	$ (0.02)	$ 0.05	$ 0.23
Distribution declared to unitholders	$ 1,184	$ 1,184	$ 1,184	$ 488	4,040
Distribution declared to unitholders per unit	$ 0.17	$ 0.17	$ 0.17	$ 0.07	$ 0.58
Weighted average of units outstanding	6,966,368	6,966,368	6,966,368	6,966,368	6,966,368

(Canadian dollars in thousands, except per unit data)	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2007 Total
Lease revenue	$ 2,259	$ 2,348	$ 2,370	$ 2,387	$ 9,364
Operating cost recoveries	2,025	1,919	1,776	2,034	7,754
Total rental revenues	4,284	4,267	4,146	4,421	17,118
Operating costs	2,465	2,313	2,109	2,547	9,434
Non-recoverable selling, general and administrative expenses	245	237	266	268	1,016
Earnings before the following	1,574	1,717	1,771	1,606	6,668
Interest on mortgages, less interest income	194	194	198	185	771
Amortization, impairment charges and accretion	1,225	1,229	1,236	1,154	4,844
Earnings before income taxes and non-controlling interest	155	294	337	267	1,053
Recovery of income taxes	335	288	315	1,098	2,036
Non-controlling interest	(28)	2	(18)	(29)	(73)
Earnings	$ 462	$ 584	$ 634	$ 1,336	$ 3,016
Earnings per unit	$ 0.07	$ 0.08	$ 0.09	$ 0.19	$ 0.43
Distribution declared to unitholders	$ 1,184	$ 1,184	$ 1,184	$ 1,254	4,806
Distribution declared to unitholders per unit	$ 0.17	$ 0.17	$ 0.17	$ 0.18	$ 0.69
Weighted average of units outstanding	6,966,368	6,966,368	6,966,368	6,966,368	6,966,368

Fourth Quarter Results

Rental revenues for the fourth quarter of 2008 were $4.8 million compared with $4.4 million for the fourth quarter of 2007. The difference primarily reflects the higher operating cost recoveries due to the higher land lease expense in the fourth quarter of 2008 as well as higher occupancy and average lease rates than in the fourth quarter of 2007. Operating costs for the fourth quarter of 2008 were $2.9 million compared with $2.5 million in the fourth quarter of 2007. The increase is also primarily attributable to the higher land lease expense. Non-recoverable selling, general and administrative fees in the fourth quarter of 2008 of $0.5 million were $0.2 million higher than the comparable period in 2007 due to legal

fees surrounding new company setup along with the internalization of management services.

The provision for amortization and accretion in the fourth quarter of 2008 and 2007 were $1.1 million. IAT amortizes its capital improvements on a straight line basis. As a result, fluctuations in amortization and accretion are primarily attributable to accretive adjustments. Income tax recovery in the fourth quarter of 2008 decreased to $0.3 million from $1.1 million in the fourth quarter of 2007, due primarily to favourable federal tax rate adjustments that were substantively enacted in the fourth quarter of 2007.

Liquidity and Capital Resources

As at December 31, 2008, after deducting the January 15, 2009 distribution payable to unitholders, IAT had cash on hand of $2.9 million as well as an unused line of credit of $0.8 million. Management of IAT expects to make a total investment in tenant and building improvements of approximately $1.4 million to improve its properties for the year 2009. These investments include approximately $1.0 million in periodic maintenance and improvement works, such as roofing, paving and painting, and tenant improvements of $0.4 million. Included in this amount is $0.6 million in renovations to the 4840 Miller Road facility in Richmond, British Columbia, as required per a long term lease renewal commitment.

The expected investment in tenant improvements amounting to $0.4 million is expected to be incurred in the course of leasing activities relating to vacant or renewing space in 2009. Tenant improvements relate primarily to the refurbishing of tenant areas upon lease expiry or to accommodate new tenants' requirements in vacant space. Tenant improvements are capitalized and included in net investment in income properties in the consolidated balance sheet and amortized over the life of the applicable lease. The level of tenant improvements undertaken varies with the level of leasing activities in the given period. Periods of higher leasing generally will result in greater tenant improvements. The amounts budgeted for 2009 are estimated based on current information. No assurance can be given that the estimated amounts may not differ depending on actual commitments made in 2009. In 2008 and 2007, IAT incurred $0.8 million and $0.5 million, respectively, of tenant improvements which were paid from IAT's cash flow from operations.

The Fund is totally dependent upon IAT and IAT's real estate operations for the cash used to pay its administrative expenses and the amounts ultimately distributed to the unitholders. The Fund receives quarterly interest payments on the Notes and any dividends that IAT may declare from time to time directly from IAT. Senior Subordinated Notes carry a fixed interest rate of 10% per annum. Interest on the Notes is determined quarterly at an amount equal to the amount by which 92.5% of IAT's earnings before interest, amortization, and accretion and after provision for current taxes payable exceeds debt service requirements (principal and interest) on mortgage debt and the Senior Subordinated Notes, subject to a minimum rate of 6% per annum and a maximum rate of 12.5% per annum.

Effective February 27, 2009, the Fund will also receive amounts from its 99.999% profit sharing interest in the Fund's wholly-owned subsidiary, IAT Management LP for providing management, leasing and marketing, and operations services to IAT.

The Fund held $1.9 million in Senior Subordinated Notes as of December 31, 2008. The Senior Subordinated Notes are senior to the Subordinated Notes but are subordinate to IAT's current and future mortgage debt. $1.0 million of principal on the Senior Subordinated Notes was repaid in 2008 including $0.1 million in January 2008, and $0.9 million in August 2008.

Based on historical and anticipated cash needs, IAT retains a reserve for capital expenditures and working capital and other requirements. If IAT concludes that it has additional cash beyond what it needs for expected capital expenditures and working capital and other requirements, the directors of IAT may, in their discretion, declare a dividend to the Fund, which would then be available for distribution by the Fund to unitholders.

IAT's cash from operations is not seasonal but is cyclical as it pertains to the aviation industry. The majority of operating expenses (including land lease rents, property taxes, and insurance) are recovered from tenants as the cost is incurred throughout the year. IAT maintains an operating credit facility of $0.8 million to meet its working capital requirements. This line of credit is secured, has a variable interest rate equal to the bank's prevailing prime rate plus 1%, and is repayable on demand with interest paid monthly on the outstanding balance. The cash flow generated from the operating property portfolio represents IAT's primary source of income. To date, the line of credit has never been used.

IAT may on occasion require additional capital to fund acquisitions and renovations. Such acquisitions and renovations are expected to be primarily funded by mortgage financing, cash on hand and the issuance and sale of new Units. In addition, IAT may incur costs from time to time in connection with potential acquisitions or expansions and related financing proposals. Pending the completion or other termination of these proposed transactions, such costs may be deferred and subsequently may be capitalized as part of the acquisition costs, applied against financing proceeds or expensed, depending on the nature and outcome of the proposed transaction.

The following table sets forth the consolidated long term contractual obligations of IAT as at December 31, 2008 by maturity date:

	Payments Due				
(Canadian dollars in thousands)	Total	2009	2010- 2011	2012 - 2013	After 2013
Mortgage loans [(1),(2)]	$ 14,031	$ 2,929	$ 5,940	$ 2,710	$ 2,452
Operating leases [(3)]	45,292	3,376	6,766	6,781	28,369
Asset retirement obligations[(4)]	429	-	-	-	429
	$ 59,752	$ 6,305	$ 12,706	$ 9,491	$ 31,250

Notes:

(1) Further information regarding IAT's long term debt obligations is included in note 6 to the Fund's consolidated financial statements for the year ended December 31, 2008.

(2) Mortgages due in 2009 through 2013 are expected to be renewed at maturity for their outstanding principal amounts. Assuming such renewals, principal payments required in the first through fifth years will be as follows: 2009 - $1.0 million; 2010/2011 - $2.0 million; 2012/2013 - $2.0 million; thereafter - $9.0 million.

(3) Operating leases are leases of land at various airports and a building at the Vancouver airport. IAT has no other capital or operating leases or purchases or other long-term obligations other than accounts payable for goods and services in the ordinary course of business.

(4) Under the terms of various land leases, retirement costs might be incurred by IAT at the end of the final term of some of those land leases. A provision for these costs has been established in accordance with CICA Handbook Section 3110 – Asset Retirement Obligations. These costs have been reported at their estimated value as at December 31, 2008.

Certain of IAT's mortgages require compliance with certain financial covenants including debt service coverage ratios. For the year ended December 31, 2008, IAT believes that it complied with these covenants.

Risk Management

Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The Fund mitigates this risk by assessing tenant quality and credit risk on new lessees, collecting security deposits upon lease execution and by limiting exposure to any one tenant. Due to the current recessionary economic environment, the Fund continues to closely monitor accounts receivable and collections and endeavors to follow up promptly on all late payments.

As of December 31, 2008, IAT has 132 tenants (2007 – 135 tenants) and 70% of the Fund's revenue is derived from its operations at Vancouver International Airport (2007 – 72%), where 65% (unaudited) of its total net leaseable area is located (2007 – 65%). Currently, no one tenant occupies more than 7% of IAT's aggregate net leaseable area at all airports nor contributes more than 8% towards total rental revenues (2007 – 8% and 9%, respectively). With respect to cash and cash equivalents, the Fund deposits such short term financial instruments with high-credit quality financial institutions as determined by credit rating agencies and believes the risk of loss to be low.

Interest rate risk

The Fund is exposed to interest rate risk on its borrowings. The Fund seeks to reduce its interest rate risk by staggering the maturities of its loans and by maintaining a balance between fixed and variable interest rates. As of December 31, 2008, IAT has mortgage loans amounting to $7.6 million (2007 – $2.2 million) on a floating rate, representing approximately 54.4% of the total mortgage loans outstanding at December 31, 2008 (2007 – 14.9%).

As a result of the Fund's variable interest rate mortgages, and the Fund's intention to renew mortgages as current mortgage terms expire, there is risk that interest paid by the Fund on its mortgage debt may fluctuate. The following interest sensitivity table outlines the potential impact of a 1% change in the interest rate on variable rate assets and liabilities for the year ended December 31, 2008. A 1% change is considered a reasonable level of fluctuation on variable rate assets and debts.

	Carrying amount		Interest rate risk	Income		Equity	
Cash and cash equivalents.........	$	3,426	+1%	$	34	$	34
Variable rate mortgages............	$	7,635	+1%		(76)		(76)
				$	(42)	$	(42)
Cash and cash equivalents.........	$	3,426	-1%	$	(34)	$	(34)
Variable rate mortgages............	$	7,635	-1%		76		76
				$	42	$	42

Liquidity risk

Liquidity risk refers to the possibility that the Fund's cash or cash equivalents would be insufficient at any given time to meet its obligations with respect to working capital requirements, debt servicing, leasing costs and distributions to unitholders. The Fund's liquidity relies on its ability to collect cash flows from operating its property portfolio and the ability to refinance debt instruments as they

mature under terms and conditions acceptable to the Fund. As part of its ongoing cash management and in light of the heightened uncertainties due to the global recession, the Fund mitigates its liquidity risk by maintaining an adequate cash balance, maintaining a line of credit, staggering debt maturities, promptly collecting outstanding receivables, limiting lease and other obligations, periodically reviewing actual and projected cash flows, and adjusting discretionary distribution payments and capital spending programs.

The Fund is committed to spending approximately $1.1 million on renovations to a property of which $0.6 million has been spent as of December 31, 2008 with the remainder expected to be spent in the first quarter of 2009. In addition, as at December 31, 2008 the Fund had accounts payable and accrued liabilities of $1.6 million (2007 - $1.5 million), distributions declared and payable of $0.5 million (2007 - $1.3 million) and undiscounted contractual long-term financial liabilities as follows:

	Payments Due				
	Total	2009	2010 - 2011	2012 - 2013	After 2013
Mortgage loans	$ 14,031	$ 2,929	$ 5,940	$ 2,710	$ 2,452
Operating leases	45,292	3,376	6,766	6,781	28,369
Asset retirement obligations	429	-	-	-	429
	$ 59,752	$ 6,305	$ 12,706	$ 9,491	$ 31,250

Transactions with Related Parties

During the year ended December 31, 2008, IAT had agreements with AMB Canada whereby AMB Canada provided property management, development, leasing and marketing, operations and maintenance and administrative services to IAT and IAT paid AMB Canada for such services. In December 2008, the Fund's trustees and AMB Canada agreed to an internalization of the management of the Fund whereby the Fund's asset management and operations would be assumed from AMB Canada. Neither IAT nor AMB Canada were required to pay a termination fee as AMB and IAT mutually agreed to early termination. IAT Management LP was created in 2008 to provide the management services assumed from AMB Canada in 2009 and onwards. On February 27, 2009, the Fund completed the internalization of management services to IAT Management LP, replacing AMB Canada as property manager and Fund administrator. As part of the transition IAT Management LP also purchased approximately $42,000 in assets from AMB Canada, and hired AMB Canada's Vancouver office staff.

During the year ended December 31, 2008, IAT was charged a total of $1.4 million (2007 - $1.3 million) under the Agreements. These fees were included in operating costs and leasing and marketing fees as applicable. The property management fees are included in operating costs and are recoverable from tenants. The Agreements were amended in September 2005 to have an initial ten-year term, expiring on September 14, 2015, with an automatic renewal for a second term of ten years. Previously, IAT's rights included the right to terminate the agreements at any time on 90 days' notice, subject to a termination fee based on a 2.25 multiple of the basic management fees payable for the four most recently completed quarters. Under the terms of the amended agreements, during the first ten-year term, IAT could have exercised a no fault termination right in the event of a transaction that results in a change of control of IAT or, with respect to particular properties, a change of beneficial ownership of IAT's properties. During the second ten-year term, IAT would have had the right to terminate at any time with 90 days' notice. A termination fee would have been payable by IAT if such a termination resulted in the remaining properties generating an annual management fee of less than $0.8 million. Any such termination fee

would have been based on a 2.25 multiple of the basic management fees payable for the four most recently completed fiscal quarters.

During the year ended December 31, 2008, AMB Canada had been contracted by IAT to provide or subcontract the provision of operations and maintenance services to IAT. During the twelve month period ended December 31, 2008, IAT was charged $0.7 million (2007 - $0.3 million) for these services. These fees are included in operating costs and are recoverable from tenants.

Rental income was earned from AMB Canada for space leased from IAT at one of its Vancouver buildings. During the year ended December 31, 2008, the rental amount received by IAT from AMB Canada was $0.1 million (2007 - $0.1 million). The lease was subsequently assigned to IAT Management LP on February 27, 2009.

During the year ended December 31, 2008, the Fund was charged $5,000 (2007 - $2,000) for administrative services and reimbursements of incidental expenses incurred on its behalf by AMB Canada.

The amount due to AMB Canada included in accounts payable and accrued liabilities as at December 31, 2008 was $0.1 million (2007 - $0.2 million).

For the year 2008, Headlands Realty Corporation ("Headlands"), a wholly-owned subsidiary of AMB, received, its pro-rated share of distributions declared in 2008 from the Fund amounting to $0.1 million (2007 - $0.2 million), prior to Headlands tendering all of its Units to FrontFour on August 29, 2008.

FrontFour and its affiliates acquired additional Units on August 29, 2008, pursuant to a takeover offer, increasing total ownership of the Fund to approximately 44.5%. Since then, and during the year ended December 31, 2008, Distressed Securities & Special Situations-1 ("DSSS"), a Delaware statutory trust managed by FrontFour, received, or is owed, its pro-rated share of distributions declared by the Fund amounting to $0.5 million. FrontFour Holdings Inc., a wholly-owned Canadian subsidiary of FrontFour, received, or is owed, its pro-rated share of distributions declared by the Fund amounting to $0.2 million, and partners of FrontFour received $19,000 in director and trustee fees from the Fund and were reimbursed approximately $6,000 for incidental expenses.

For the year ended December 31, 2008, the Fund and IAT incurred fees of $0.5 million (2007 - $0.3 million) for legal advice and services to the law firm of Lawson Lundell LLP. During 2008 counsel with this law firm was Secretary of the Fund and of IAT.

See Note 11 – Related Party Transactions in the notes to the Consolidated Financial Statements for further information.

Critical Accounting Estimates

The preparation of consolidated financial statements for the Fund in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The following is a discussion of those critical accounting estimates where the actual results are considered by management to be most uncertain and where actual results could materially affect or alter the financial condition, changes in financial condition or results of operation of IAT.

Fair Value of Mortgage Loans

As of December 31, 2008, the fair value of the Fund's mortgage loans was approximately $14.0 million (2007 - $15.0 million). The fair value of the Fund's mortgage loans is estimated based on discounted future cash flows using current market rates for mortgages with similar terms and conditions, which range from 5.25% to 7.68%.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment. Changes in assumptions could affect estimates.

Recoverable Costs

Provisions in the financial statements for recoverable operating costs are based on management's estimates of such items. Actual costs recovered may vary from the estimated amounts as a result of changes in tenants and occupancy levels, taxes, changes in suppliers' invoice rates, variations in leases and lease terms and other factors. Adjustments are made annually to these provisions at the end of each year and generally do not result in significant adjustments.

Future Income Taxes

The Fund follows the recommendations of the CICA (defined below) relating to income taxes. These require a provision for future income taxes that represents the estimate of the future tax liability attributable to the difference between financial statement carrying values and the cost basis for tax purposes of various assets and liabilities. Changes in income tax rates and estimates of liability are recognized in the period when a change occurs.

Such changes in income tax rates and estimates can have a significant effect on the provision for future income taxes in IAT. Future income tax provisions have no effect on IAT's distributable cash or Adjusted EBITDA or on payments by IAT to the Fund.

Carrying Value of Assets and Impairment

Management of IAT reviews the carrying value of real estate investments and intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from estimated future undiscounted cash flows expected to result from its use and eventual disposition based on management's best estimates. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions regarding current and future economics and market conditions. If impairment analysis assumptions change, then an adjustment to the carrying value of IAT's long-lived assets could occur in the future period in which the assumptions change. To the extent that a property is considered impaired, the excess of the carrying amount of the property on the balance sheet

over the estimated fair value is charged to earnings. The Fund evaluated its properties, including land leases, and its intangible asset for impairment as of December 31, 2008, and given the current uncertainty in the global economy, determined that there were indications of impairment on its properties and therefore prepared an impairment analysis on a property by property basis.

The investment in income properties with a net book value of $56.9 million as at December 31, 2008 was tested for impairment on a property by property basis using undiscounted cash flows and the respective definite life based on land lease expiry date after renewal periods. Expenses were adjusted for 5% inflation, a tenant lease renewal assumption was used based on both historical renewal trends and management's expectation of future renewal rates and unit-by-unit lease rates were used based on contracted data adjusted annually for 2% inflation. Occupancy rates used in the impairment analysis were based on year-end occupancy rates adjusted for absorption, renewals and turnover rates which are based on current portfolio information and management's expectations. Management believes that the resulting undiscounted cash flows continue to support the recoverability of our definite life assets. Accordingly the Fund concluded that none of the properties required write-downs due to impairment as at December 31, 2008.

Recovery of IAT's investment in its facilities through lease revenues will depend on actual occupancy and lease rates in the future. Management will continue to review such values and may determine that adjustment is required in the future if changes in business conditions result in changes to expectations for occupancy and lease rates.

Asset Retirement Obligations

The Fund recognizes a liability for asset retirement obligations in the period in which an obligation is incurred if a reasonable estimate of the retirement cost can be made. The estimated future obligation is capitalized as part of the carrying value of the income properties, and amortized over the remaining life of the property. The obligation is adjusted annually by accretion. There is a high degree of uncertainty in the determination of the amount of the retirement obligations, which are based on management's best estimates at the time. These estimates are reviewed annually, and where appropriate, the impact of changes to these estimates is recorded in the financial statements. The decommissioning costs associated with asset retirement will depend upon market conditions in the construction, recycling, and environmental sectors, and will vary over time. The likelihood of having to decommission a building varies depending on local airport authority long term usage plans, occupancy levels and anticipated market demand at the end of the term of land leases. The estimate will also depend on the remaining term of each land lease, the anticipated condition of each building on the decommissioning date, as well as assumed inflation and discount rates. In 2008, the provision for asset retirement obligations increased by approximately $21,000 compared to a decrease of $83,000 in 2007, mainly due to changes in probability assumptions related to revised facts surrounding airport planning and an overall 1% decrease in the annual inflation assumption.

Significant New Accounting Policies

Capital Disclosures

Effective January 1, 2008, the Fund adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535 – Capital Disclosures. This section establishes standards for disclosing information about a company's capital and how it is managed. Disclosures addressing this standard are included in Note 15 – Capital Management in the notes to the Consolidated Financial Statements for further information.

Financial Instruments – Disclosures and Presentation

Effective January 1, 2008, the Fund adopted the CICA Handbook Section 3862 – Financial Instruments – Disclosures and Handbook Section 3863 – Financial Instruments – Presentation. These sections require the Fund to provide disclosures in its financial statements that enable users to evaluate the significance of financial instruments to its financial position and performance, the nature and extent of risks arising from such financial instruments and how it manages those risks, as well as additional details on financial asset and liability categories. Disclosures addressing this standard are included in Note 14 - Financial instruments and risk management in the notes to the Consolidated Financial Statements for further information.

Financial Instruments – Recognition and Measurement

Effective January 1, 2007, the Fund adopted the CICA Handbook Section 3855 – Financial Instruments – Recognition and Measurement. This standard was applied retroactively with restatement of comparatives. Financial instruments are defined as rights or obligations that meet the definitions of assets or liabilities.

Under this standard, the Fund's financial assets classified as receivables and loans, including accounts receivable are measured at amortized cost using the effective interest method with any resulting gains or losses being recognized in earnings. The Fund's cash and cash equivalents, classified as held for trading, are measured at fair value. The Fund's mortgage loans, accounts payable and accrued liabilities, distribution payable to unitholders, and tenant deposits are classified as financial liabilities and are measured at amortized cost. In addition, transaction costs relating to acquisitions and capital transactions are classified as a reduction of equity.

Future Accounting Policy Changes

Goodwill and Intangible Assets

The CICA issued a new accounting standard, Handbook Section 3064 – Goodwill and Intangible Assets and made amendments to Handbook Section 1000 – Financial Statement Concepts. Section 3064 will replace Handbook Section 3062 – Goodwill and Other Intangible Assets and Handbook Section 3450 Research and Development Costs. The objectives of these amendments and new section are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition.

Costs that do not meet the definition and recognition criteria for assets must be expensed as incurred. Certain costs that meet the definition of an asset will be capitalized. This new standard and corresponding amendments will be effective for the Fund in the first quarter of 2009 and will be applied retroactively

with restatement of the comparative period. The Fund is currently in the process of evaluating the potential impact of this standard and amendment on its consolidated financial statements.

Business Combinations

The CICA recently introduced Handbook Section 1582 – Business Combinations to replace Handbook Section 1581 – Business Combinations. The new standard will become effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Fund is currently in the process of evaluating the potential impact of this standard on its consolidated financial statements.

Consolidated Financial Statements and Non-Controlling Interests

The CICA recently introduced Handbook Section 1601 – Consolidated Financial Statements, and 1602 – Non-Controlling Interests, which will replace Handbook Section 1600 – Consolidated Financial Statements establishing a new section for accounting for a non-controlling interest in a subsidiary. These new sections apply to interim and annual consolidated statements for the years beginning on or after January 1, 2011. The Fund is currently in the process of evaluating the potential impact of this standard on its consolidated financial statements.

International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board ("ASB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies are required to converge with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011, with comparative figures presented on the same basis. In February 2008, the CICA ASB confirmed that January 1, 2011 would be the effective date of the initial adoption of IFRS. The Fund is required to have an IFRS transition plan in place and begin implementation of the plan before the end of 2009 to ensure the 2010 opening balance sheet is translated to IFRS and dual accounting systems can record transactions over 2010 on both a GAAP and IFRS basis. The Fund expects a great deal of effort to be involved in this transition and has begun planning the transition to IFRS. The impact of the transition to IFRS on the Fund's consolidated financial statements has not yet been determined.

Disclosure Controls and Procedures

National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI52-109") defines "Disclosure controls and procedures" as follows:

> *"Disclosure controls and procedures" means controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include, controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the issuer's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.*

The Fund's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Fund is recorded, processed, summarized and reported within

the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2008, an evaluation was carried out under the supervision of, and with the participation of management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Fund's disclosure controls and procedures as defined under NI52-109. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the Fund's disclosure controls and procedures were effective as at December 31, 2008.

Internal Control Over Financial Reporting

National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings defines "internal control over financial reporting" as follows:

> *"internal control over financial reporting" means a process designed by, or under the supervision of, an issuer's certifying officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP and includes those policies and procedures that:*
>
> *(a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer,*
>
> *(b) are designed to provide. reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the issuer's GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer, and*
>
> *(c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual financial statements or interim financial statements.*

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The President and Chief Executive Officer and the Chief Financial Officer evaluated, or caused an evaluation under their direct supervision, of the design and operating effectiveness of the Fund's internal controls over financial reporting as at December 31, 2008 and, based on that evaluation, determined that the Fund's internal controls over financial reporting was effective and that there was no material weakness.

There have been no changes made to the Fund's internal control over financial reporting during the period ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Fund's internal control over financial reporting.

Outlook and Risks

Like other economic sectors, the global air cargo industry is in a period of significant uncertainty as recent, unprecedented economic and financial events have clouded the near term forecast and have resulted in tighter credit conditions. These events are expected to result in slower, or negative, growth. Near term challenges include a slowing world economy, volatile oil and energy prices, a reduction in the availability and cost of credit, the impact of inflation and, in some markets, slowing air traffic growth.

Historically, airports have been remarkably resilient to downturns and there are good reasons to believe that the majority of airports can remain robust, even in a prolonged, negative climate. The degree of diversification, efficiency and innovation and the certainty that aviation will keep growing in the long term will stabilize and guide the industry through this current turbulence and airports will, once again, be the key facilitator of global economic growth when the world economy re-emerges.

According to Boeing's World Air Cargo 2008/2027 report ("Report"), over the past 20 years air travel grew by an average of 4.8% each year despite two major world recessions, terrorist acts, the Asian financial crisis of 1997, the severe acute respiratory syndrome (SARS) outbreak in 2003 and two Gulf wars. The Report forecasts an average annual increase in cargo of 5.8% for the next two decades, while recent statements have become more cautionary. Boeing also forecasts that Asia's air cargo markets will continue to lead the world air cargo industry in average annual growth rates.

Based on this report, IAT remains cautiously optimistic that IAT's asset locations in Western Canada, which is considered Canada's Asia Pacific gateway, should continue to benefit from these trends. Furthermore, U.S. network carriers are already seeing contraction in domestic operations as they shift emphasis toward more profitable international routes, increasing relative international cargo capacity in North America. Within the IAT portfolio, our customer base is also extremely diversified and, in spite of continuing drops in cargo volumes, we anticipate that our occupancy will not be significantly affected.

As a result of recent market conditions, the cost and availability of credit has been, and may continue to be, adversely affected by illiquid credit markets and wider credit spreads. Concerns about the stability of the markets and the capital positions of various financial institutions had led many lenders to reduce or cease to provide debt funding to borrowers. Should the market turbulence continue in the longer term, IAT's liquidity, financial condition and prospects for growth and acquisitions, as well as that of IAT's tenants, may be adversely affected. For example, while IAT maintains a $0.8 million line of credit that it may draw upon, a persistent slowdown in market conditions and tightening of credit could restrict IAT's access to this line of credit. In addition, if these market conditions continue, IAT's and its tenants' ability to replace or refinance maturing debt in a timely manner, on desired terms or to access the capital markets to meet liquidity demands may be limited, which may have a potential adverse effect on IAT's financial condition and results of operation. As well, the downturn in the global economy or in those sectors of the economy that are relevant to IAT's tenants may affect tenants' ability to meet their lease obligations. IAT continues to assume that access to its cash investments will not be adversely impacted since it has deposited its cash and cash equivalents with TD Canada Trust and IAT has not experienced any loss or lack of access to such cash or cash equivalents to date.

Some identified risks that could impact IAT include the trend towards industry consolidation, which could result in a reduction in demand for airport warehouse, hangar, and office space, and airport authorities working directly with prospective customers of IAT to develop and lease air cargo facilities and/or airport authorities terminating existing leases with IAT. Other developers of airport space also compete with IAT.

The Fund is also subject to those risk factors discussed under the heading "Risk Factors" in the Fund's Annual Information Form, which is available on SEDAR at www.sedar.com. In light of recent economic and market developments, investors are encouraged to read these risk factors and the risks referred to on pages 16 and 17 of this report.

March 10, 2009

International Aviation Terminals Inc.
per:

Zachary R. George
President and Chief Executive Officer

FINANCIAL STATEMENTS
RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements and other information pertaining to the Fund in this annual report are the responsibility of the Trustees of the Fund. The financial statements of the Fund have been prepared on a consolidated basis with the financial results of International Aviation Terminals Inc. ("IAT") in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include financial information of IAT that is the responsibility of IAT's Board of Directors and that reflects estimates and judgments of the executive management of IAT.

IAT's executive management is also responsible for maintaining systems of internal control, policies and procedures, to provide reasonable assurance that the Fund's assets are safeguarded, that transactions are properly executed in accordance with appropriate authorization and that the accounting systems provide timely, accurate and reliable financial information.

The Board of Directors of IAT is responsible for ensuring that IAT's executive management fulfills its responsibility for financial reporting and internal control.

The financial statements have been independently audited by PricewaterhouseCoopers LLP, Chartered Accountants, in accordance with Canadian generally accepted auditing standards. The Auditors' Report outlines the scope of their examination and their independent professional opinion on the fairness of these financial statements.

March 10, 2009

W. John Dawson
Chairman
IAT Air Cargo Facilities Income Fund

AUDITORS' REPORT

To the Unitholders of
IAT Air Cargo Facilities Income Fund

We have audited the consolidated balance sheets of IAT Air Cargo Facilities Income Fund as at December 31, 2008 and 2007 and the consolidated statements of earnings, comprehensive earnings and cumulative earnings, unitholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
March 10, 2009

IAT Air Cargo Facilities Income Fund

Consolidated Balance Sheets

As at December 31, 2008 and 2007

(Stated in thousands of Canadian dollars)	2008	2007
Assets		
Net investments in income properties (note 3)	$ 56,929	$ 60,460
Intangible asset (note 4)	217	352
Deferred costs	96	263
Recoverable costs	1,396	1,194
Prepaid expenses and deposits	617	558
Accounts receivable (note 5)	936	632
Cash and cash equivalents	3,426	5,329
Total assets	$ 63,617	$ 68,788
Liabilities and Unitholders' Equity		
Mortgage loans (note 6)	$ 14,031	$ 14,961
Accounts payable and accrued liabilities	1,622	1,498
Distribution payable to unitholders (note 10)	488	1,254
Tenant deposits	1,284	1,278
Deferred revenue	632	519
Asset retirement obligations (note 7)	429	380
Future income taxes (note 8)	8,380	9,727
Total liabilities	26,866	29,617
Non-controlling interest	(47)	(29)
Unitholders' equity (note 9):		
Capital contributions	67,360	67,360
Cumulative earnings	32,592	30,954
Cumulative distributions	(63,154)	(59,114)
Total unitholders' equity	36,798	39,200
Total liabilities and unitholders' equity	$ 63,617	$ 68,788

Commitments (note 12)

Subsequent event (note 18)

Approved by the Chairman and Chief Executive Officer

W. John Dawson, Chairman

Zachary R. George, Chief Executive Officer

The accompanying notes are an integral part of these consolidated financial statements

IAT Air Cargo Facilities Income Fund

Consolidated Statements of Earnings, Comprehensive Earnings and Cumulative Earnings

For the Years Ended December 31, 2008 and 2007

(Stated in thousands of Canadian dollars, except per unit amounts, and number of trust units)	2008	2007
Rental Revenues		
Lease revenues	$ 9,806	$ 9,364
Operating cost recoveries	8,661	7,754
Total rental revenues	18,467	17,118
Expenses		
Operating costs	10,529	9,434
Leasing and marketing fees	355	333
General and administrative (note 16)	1,998	683
Total operating expenses	12,882	10,450
Earnings before the following	5,585	6,668
Interest on mortgage loans, less interest income (note 6)	582	771
Amortization and accretion (notes 3, 4 and 7)	4,590	4,844
Earnings before income taxes and non-controlling interest	413	1,053
Recovery of (provision for) income taxes (note 8)		
Current	(51)	(40)
Future	1,347	2,076
Total recovery of income taxes	1,296	2,036
Earnings before non-controlling interest	1,709	3,089
Non-controlling interest	(72)	(73)
Net earnings and comprehensive earnings	1,637	3,016
Cumulative earnings - beginning of year	30,954	27,988
	32,591	31,004
Refundable taxes	1	(50)
Cumulative earnings - end of year	$ 32,592	$ 30,954
Basic and diluted earnings per unit	$ 0.23	$ 0.43
Weighted average number of units outstanding	6,966,368	6,966,368

The accompanying notes are an integral part of these consolidated financial statements

IAT Air Cargo Facilities Income Fund

Consolidated Statements of Unitholders' Equity

For the Years Ended December 31, 2008 and 2007

(Stated in thousands of Canadian dollars, except number of units)	Number of Units Outstanding		Capital Contributions		Cumulative Earnings		Cumulative Distributions		Total
Balance at December 31, 2006	6,966,368	$	67,360	$	27,988	$	(54,308)	$	41,040
Net earnings and comprehensive earnings	-		-		3,016		-		3,016
Refundable taxes	-		-		(50)		-		(50)
Distributions (note 10)	-		-		-		(4,806)		(4,806)
Balance at December 31, 2007	6,966,368	$	67,360	$	30,954	$	(59,114)	$	39,200
Net earnings and comprehensive earnings	-		-		1,637		-		1,637
Refundable taxes	-		-		1		-		1
Distributions (note 10)	-		-		-		(4,040)		(4,040)
Balance at December 31, 2008	6,966,368	$	67,360	$	32,592	$	(63,154)	$	36,798

The accompanying notes are an integral part of these consolidated financial statements

IAT Air Cargo Facilities Income Fund

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2008 and 2007

(Stated in thousands of Canadian dollars)		2008		2007
Cash flows from operating activities				
Net earnings and comprehensive earnings	$	1,637	$	3,016
Items not affecting cash				
Amortization and accretion		4,590		4,844
Future income taxes		(1,347)		(2,076)
Non-controlling interest		72		73
		4,952		5,857
Change in non-cash working capital (note 13)		(631)		(445)
Net cash provided by operating activities		4,321		5,412
Cash flows from investing activities				
Additions to income properties		(398)		(391)
Net cash used in investing activities		(398)		(391)
Cash flows from financing activities				
Distributions paid to unitholders		(4,806)		(5,085)
Dividend paid to non-controlling shareholder of joint venture (note 1)		(90)		-
Mortgage loan repayments		(930)		(766)
Net cash used in financing activities		(5,826)		(5,851)
Net change in cash and cash equivalents		(1,903)		(830)
Cash and cash equivalents - beginning of year		5,329		6,159
Cash and cash equivalents - end of year	$	3,426	$	5,329
Supplemental information:				
Interest paid on mortgage loans	$	930	$	1,068
Income taxes paid	$	63	$	23
Non-cash activities:				
Increase (decrease) in income properties related to asset retirement obligations	$	21	$	(83)
Increase in accounts payable related to income properties	$	421	$	73

The accompanying notes are an integral part of these consolidated financial statements

1. Organization and description of the business

IAT Air Cargo Facilities Income Fund (the "Fund") was created as an unincorporated, limited-purpose trust under the laws of the Province of British Columbia pursuant to a Declaration of Trust dated March 15, 1997. On October 20, 2008, unitholders of the Fund adopted an Amended and Restated Declaration of Trust (the "Amended and Restated Declaration of Trust") pursuant to which the Fund became an open-ended, mutual fund trust.

The Fund owns the common shares and subordinated notes of International Aviation Terminals Inc. ("IAT"), the common shares of IAT Management GP Ltd. ("IAT GP"), and the Limited Partnership units of IAT Management Limited Partnership ("IAT Management LP"). IAT is in the business of owning and leasing buildings that are designed for use by businesses involved in air transport services including air cargo and aircraft maintenance. IAT's properties are constructed on land leased at airports in Vancouver, Calgary, Edmonton, Saskatoon and Winnipeg under long-term ground leases from either local airport authorities or the Government of Canada. IAT leases 1,141,263 square feet of facilities developed on these lands to 132 tenants.

IAT has a 50% joint venture interest in 3051350 Nova Scotia Company Ltd. (the "Joint Venture") and has determined that the Joint Venture is a variable interest entity of which the Fund is the primary beneficiary due to a combination of various agreements between the Joint Venture and IAT, as well as a put option, whereby the other party to the Joint Venture has an annual right to sell its 50% interest in the Joint Venture to IAT at a price determined based on the terms of the Joint Venture agreement.

2. Significant accounting policies

Basis of consolidation

The consolidated financial statements include the accounts of the Fund, IAT, IAT GP, IAT Management LP, 609704 B.C. Ltd., and 3051350 Nova Scotia Company Ltd. All significant inter-entity transactions and balances have been eliminated on consolidation.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates. The most significant estimates are related to asset retirement obligations, recoverable costs, future income tax liability, asset impairment, the economic life of depreciable long-lived assets, and fair value of mortgage loans and recoverable costs.

Net investments in income properties

(a) Land leases

When a building is purchased and there is value attributable in the transaction to the underlying land lease the value is assigned to the intangible asset land lease and is included in the net investments in the income properties balance.

Amortization of land leases is computed as follows:

Land leases ....straight-line over terms of land leases

(b) Income properties

Investments in income properties are recorded at cost, which includes capitalized interest during the construction period, less accumulated amortization.

Amortization of income properties is computed as follows:

Buildings ....straight-line over terms of land leases
Tenant improvements..................................straight-line over terms of tenant leases
Fencing, signs, paving, landscaping and other.......declining balance - 8% to 20% per annum

Intangible assets

Intangible assets are recorded at cost less accumulated amortization. Amortization of intangible assets is computed over the term of the contractual arrangement as follows:

Non-compete agreement...............................straight-line over 10 years

Impairment of net investments in income properties and intangible assets

The Fund reviews the carrying value of net investments in income properties and intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from estimated future cash flows expected to result from its use and any eventual disposition based on management's best estimate. In cases where undiscounted estimated future cash flows are less than the carrying value, a write-down is recognized equal to the difference between the carrying value and the estimated fair value. The estimated fair value is based upon discounted estimated future cash flows at estimated occupancy levels, over the remaining lease term of the property. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions regarding current and future economics and market conditions. If impairment analysis assumptions change, then an adjustment to the carrying value of income properties could occur in the future period in which the assumptions change.

Deferred costs

Deferred costs comprise amounts paid to third parties related to attracting and signing new tenants and amounts incurred in pending capital transactions. Costs incurred related to signing new tenants are deferred and amortized over the life of the tenant lease, which will range from one to ten years. Costs incurred in pending capital transactions are deferred until the completion of the transaction, at which time they are netted against related equity.

Recoverable costs

In its leases with tenants, IAT recovers, in addition to the rent paid, a proportionate share of its operating and maintenance costs, including rent paid on its land leases. Such costs and their recovery

are recorded as incurred. Certain maintenance costs are deferred and recovered over a period ranging from three to ten years, depending on the useful life of the costs deferred.

Cash and cash equivalents

Cash and cash equivalents include cash held by financial institutions and other highly liquid short-term investments with original maturities of three months or less.

Tenant deposits

Tenant deposits are collected from tenants at the commencement of the lease and are refunded to tenants, net of damages to the leased premises and without interest, at the end of the term of the lease. Tenant deposits are recorded at their present value, and the difference between the amount collected from the tenant and this present value is recorded as deferred revenue and realized as income over the term of the lease. The tenant deposit obligation is increased annually by accretion using the effective interest method and is charged to the consolidated statements of earnings.

Deferred revenue

Tenant rentals are normally billed in advance. Amounts received in advance are deferred and recognized as revenue in the period to which they relate.

Asset retirement obligations

The Fund recognizes a liability for asset retirement obligations in the period in which an obligation is incurred if a reasonable estimate of the retirement cost can be made. The associated retirement costs are capitalized as part of the carrying value of income properties and amortized over the terms of the land leases. The obligation is increased annually by accretion that is charged to the consolidated statements of earnings and reduced to reflect retirement costs incurred during the year.

Income taxes

The Fund's corporate subsidiaries follow the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values of assets and liabilities and their respective income tax bases.

Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply when the asset is realized or the liability settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change occurs.

Revenue recognition

IAT, as a lessor, retains substantially all of the benefits and risks of ownership of the properties and accounts for its leases as operating leases. Tenant leases may include free rent periods and changes in monthly rents over the term of a lease. Total cash rents due over the term of a lease are recognized as revenue over that term on a straight-line basis. The difference between the revenue recognized and cash rents received in the relevant period is included in accounts receivable. Cost recoveries from tenants for land rent, real estate taxes and other recoverable operating expenses are recognized in the period the applicable expenses are incurred.

Allowance for doubtful accounts

Accounts receivable are reviewed on a regular basis and a determination of the probability of collection is made based on the overall creditworthiness of tenants in arrears. From this, an allowance for doubtful accounts is established reflecting estimated losses resulting from the inability of certain tenants to meet the contracted obligations of their lease agreements and allowances are netted against accounts receivable on the accompanying consolidated balance sheets.

Comprehensive income

Other comprehensive income is used to record revenues and expenses that are not required to be included in earnings such as gains and losses on net financial assets.

Financial instruments

The Fund's financial assets classified as receivables and loans, including accounts receivable are measured at amortized cost using the effective interest method. Subsequent measurement is at amortized cost less an allowance for doubtful accounts, with any resulting gains or losses being recognized in earnings. The Fund's cash and cash equivalents, which are classified as held for trading, are measured at fair value. The Fund's mortgage loans, accounts payable and accrued liabilities, distribution payable to unitholders, and tenant deposits are classified as financial liabilities and are measured at amortized cost. In addition, transaction costs relating to acquisitions and capital transactions are classified as a reduction of equity.

Adoption of new accounting policies

(a) Financial instruments – disclosures and presentation

Effective January 1, 2008 the Fund adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862 – Financial Instruments – Disclosures and Handbook Section 3863 – Financial Instruments – Presentation. These sections require the Fund to provide disclosures in its financial statements that enable users to evaluate the significance of financial instruments to its financial position and performance, the nature and extent of risks arising from such financial instruments and how it manages those risks, as well as additional details on financial asset and liability categories. Disclosures addressing this standard are included in Note 14.

(b) Capital disclosures

Effective January 1, 2008, the Fund adopted the CICA Handbook Section 1535 – Capital Disclosures. This section establishes standards for disclosing information about an entity's capital and how it is managed. Disclosures addressing this standard are included in Note 15.

Future accounting policy changes

(a) Goodwill and intangible assets

The CICA issued a new accounting standard, Handbook Section 3064 – Goodwill and Intangible Assets, and made amendments to Handbook Section 1000 – Financial Statement Concepts. Section 3064 will replace Handbook Section 3062 – Goodwill and Other Intangible Assets and Handbook Section 3450-Research and Development Costs. The objectives of these amendments and new section are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition.

Costs that do not meet the definition and recognition criteria for assets must be expensed as incurred. Certain costs that meet the definition of an asset will be capitalized. This new standard and corresponding amendments will be effective for the Fund in the first quarter of 2009 and will be applied retroactively with restatement of the comparative period. The Fund is currently in the process of evaluating the potential impact of this standard and amendments on its consolidated financial statements.

(b) Business combinations

The CICA recently introduced Handbook Section 1582 – Business Combinations to replace Handbook Section 1581 – Business Combinations. The new standard will become effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Fund is currently in the process of evaluating the potential impact of this standard on its consolidated financial statements.

(c) Consolidated financial statements and non-controlling interests

The CICA recently introduced Handbook Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests, which will replace Handbook Section 1600 – Consolidated Financial Statements establishing a new section for accounting for a non-controlling interest in a subsidiary. These new sections apply to interim and annual consolidated statements for the years beginning on or after January 1, 2011. The Fund is currently in the process of evaluating the potential impact of these standards on its consolidated financial statements.

(d) International financial reporting standards

In January 2006, the CICA Accounting Standards Board ("ASB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies are required to converge with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011, with comparative figures presented on the same basis. In February 2008, the CICA ASB confirmed that January 1, 2011 would be the effective date of the initial adoption of IFRS. The Fund is required to have an IFRS transition plan in place and begin implementation before the end of 2009 to ensure the 2010 opening balance sheet is translated to IFRS and dual accounting systems can record transactions over 2010 on both a GAAP and IFRS basis. The Fund expects a great deal of effort to be involved in this transition and has begun planning the transition to IFRS. The impact of the transition to IFRS on the Fund's consolidated financial statements has not yet been determined.

(All tabular dollar amounts are stated in thousands of Canadian dollars, except per unit amounts)

3. Net investments in income properties

	2008		
	Cost	Accumulated amortization	Net
Intangible assets			
Land leases	$ 60,898	$ 29,205	$ 31,693
Income properties			
Buildings	39,644	16,393	23,251
Tenant improvements	1,883	982	901
Fencing, signs, paving, landscaping and other	1,539	455	1,084
	43,066	17,830	25,236
	$ 103,964	$ 47,035	$ 56,929

	2007		
	Cost	Accumulated amortization	Net
Intangible assets			
Land leases	$ 71,975	$ 37,861	$ 34,114
Income properties			
Buildings	44,612	19,778	24,834
Tenant improvements	1,793	746	1,047
Fencing, signs, paving, landscaping and other	865	400	465
	47,270	20,924	26,346
	$ 119,245	$ 58,785	$ 60,460

For the year ended December 31, 2008, amortization and accretion expenses amounted to $4.6 million (2007 - $4.8 million), of which $4.4 million (2007 - $4.6 million) relates to land leases and income properties, $0.1 million (2007 - $0.1 million) relates to amortization of intangible assets and $52,000 (2007 - $79,000) relates to amortization and accretion of asset retirement obligations. See Note 4 and Note 7.

The Fund reviews the carrying value of real estate investments for impairment annually and whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from estimated future cash flows expected to result from its use and eventual disposition. No impairment was recognized for the years ended December 31, 2008 and 2007.

(All tabular dollar amounts are stated in thousands of Canadian dollars, except per unit amounts)

4. Intangible asset

	2008		
	Cost	Accumulated amortization	Net
Non-compete agreement	$ 1,350	$ 1,133	$ 217

	2007		
	Cost	Accumulated amortization	Net
Non-compete agreement	$ 1,350	$ 998	$ 352

Amortization of the non-compete agreement relating to the June 2000 acquisition of the Airside property amounted to $0.1 million for each of the years ended December 31, 2008 and 2007.

5. Accounts receivable

Accounts receivable include rent receivable determined on a straight-line basis of $0.5 million as at December 31, 2008 (2007 - $0.3 million) and an allowance for doubtful accounts of $22,000 as at December 31, 2008 (2007 - $13,000).

6. Mortgage loans

The mortgage loans are payable in monthly instalments, at either fixed interest rates or floating rates based on the prevailing lender's prime rate plus 0.5%. Contracted interest rates as at December 31, 2008 ranged from 4.00% to 7.68% (2007 - 6.50% to 7.80%). Buildings to which the mortgages relate, and other property and equipment and an assignment of leases and rents, have been pledged as collateral. As at December 31, 2008, the net book value of those assets pledged as security is $30.0 million (2007 - $31.7 million). Additionally, IAT has provided a guarantee to a limit of $1.9 million, representing its 50% share of the mortgage debt of the Joint Venture. The mortgage loans have initial terms of five to ten years. The terms of these mortgage loans require IAT to maintain covenants and service coverage ratios.

The principal payments required in the next five years and thereafter on the mortgage loans are as follows:

Years Ending December 31	
2009	$ 2,929
2010	920
2011	5,020
2012	1,482
2013	1,228
Thereafter	2,452
	$ 14,031

(All tabular dollar amounts are stated in thousands of Canadian dollars, except per unit amounts)

Interest

Interest on mortgage loans, less interest income, is as follows:

	2008	2007
Mortgage loans	$ 920	$ 1,084
Interest income	(338)	(313)
	$ 582	$ 771

IAT also has an unused line of credit of up to $0.8 million as at December 31, 2008 (2007 - $0.8 million). This line of credit has a variable interest rate of the lender's prevailing prime rate plus 1% and is due on demand. Interest is due monthly on the outstanding balance. Collateral on the line of credit and mortgages is provided by a General Security Agreement granting the lender a first charge over all the assets and undertakings of IAT.

7. Asset retirement obligations

IAT's land leases may require the decommissioning of the attached building at the end of the land lease term and, as a result, a provision for this asset retirement obligation has been established based on the cost of decommissioning, discount rate and the likelihood of being required to demolish buildings at the end of the land lease term. IAT estimates that the undiscounted amount of cash flow required to settle the asset retirement obligations is approximately $0.9 million as at December 31, 2008 (2007 - $0.9 million) and may be incurred between 2016 and 2029. A discount rate of 7.2% was used to calculate the fair value of the asset retirement obligations.

	2008	2007
Obligations - beginning of year	$ 380	$ 438
Revision of estimates	21	(83)
Accretion expense	28	25
Obligations - end of year	$ 429	$ 380

The effect on the consolidated statements of earnings is as follows:

	2008	2007
Amortization	$ 24	$ 54
Accretion expense	28	25
	$ 52	$ 79

(All tabular dollar amounts are stated in thousands of Canadian dollars, except per unit amounts)

8. Income taxes

The Fund is a "Mutual Fund Trust" for purposes of the Income Tax Act and is only subject to statutory income taxes on taxable income not distributed to the unitholders. Any income tax obligations relating to the distributions are the obligations of the unitholders.

In June 2007, Bill C-52 was substantively enacted to tax distributions of publicly traded income funds. Due to the structure of the Fund, the Fund had already been accounting for future income taxes. Commencing January 1, 2011, if the Fund is able to qualify for the real estate investment trust ("REIT") exemption from the tax on specified investment flow-throughs ("SIFT"), Bill C-52 is not expected to have a material impact on the Fund's financial statements.

Significant components of the Fund's corporate subsidiaries' future tax assets and liabilities as at December 31, 2008 and 2007 are as follows:

	2008	2007
Future tax assets		
Non-capital loss carry-forwards	$ 169	$ 225
Other reserves	193	199
Total future tax assets	362	424
Future tax liabilities		
Book value of income property assets in excess of tax value	8,742	10,151
Net future tax liability	$ 8,380	$ 9,727

The reconciliation of income taxes attributable to operations computed at the statutory tax rates to income tax expense is as follows:

	2008	2007
Provision of income taxes at statutory rate	$ (128)	$ (358)
Income tax benefit of Fund distributions deductible for tax purposes	1,121	1,468
Tax rate changes	330	711
Other	(27)	215
Recovery of income taxes	$ 1,296	$ 2,036

IAT has non-capital loss carry-forwards of approximately $0.6 million that expire in 2010.

9. Unitholders' equity

The Declaration of Trust provides that an unlimited number of trust units ("Trust Units" or "Units") may be created and issued. Each unit represents an equal undivided beneficial interest in any distributions from the Fund and in its net assets in the event of termination or wind up of the Fund. All Units are of the same class with equal rights and privileges. Units are redeemable at any time at the option of the holder at amounts related to market prices at the time, subject to a maximum of $75,000 in cash redemption by the Fund in any particular month. This limitation may be waived at the discretion of the Trustees of the Fund. As at December 31, 2008, the Fund had 6,966,368 Units outstanding, which is unchanged from December 31, 2007.

On September 23, 2005, the Fund issued 360,000 Units for $8.21 per Unit to Headlands Realty Corporation ("Headlands"), a wholly-owned subsidiary of AMB Property, L.P. ("AMB"), an affiliate of AMB Property Canada Ltd. ("AMB Canada"), the administrator of the Fund as at December 31, 2008.

On August 29, 2008, Headlands tendered all of its shares of the Fund to Distressed Securities & Special Situations-1 ("DSSS"), a Delaware statutory trust managed by FrontFour Capital Group LLC ("FrontFour") pursuant to FrontFour's acquisition offer. As at December 31, 2008, Headlands has a nil interest (2007 – approximately 5.2%) in the issued and outstanding Units of the Fund. As at December 31, 2008, DSSS owns approximately 38.6% of the issued and outstanding Units of the Fund and FrontFour Holdings Inc., a wholly-owned Canadian subsidiary of FrontFour owns approximately 5.9% of the issued and outstanding Units of the Fund. In total, FrontFour controls approximately 44.5% of the issued and outstanding Units of the Fund. See Note 11 - Related party transactions for more detail.

Pursuant to the Declaration of Trust, the Fund expects to distribute to unitholders, every quarter, funds received from IAT net of the Fund's expenses and other liabilities. See Note 10 - Distribution to unitholders for more detail.

Options

On June 10, 1997, the Fund entered into an agreement with LMT Management Ltd. ("LMT") to provide strategic management and advice for a period of ten years ending in 2007 subject to certain early termination rights and obligations. LMT was granted options to purchase from IAT up to 2,274,928 authorized but unissued common shares of IAT. Under certain conditions, the Fund had a call right to acquire from LMT and LMT had a put right to sell to the Fund, in exchange for Units of the Fund, the common shares acquired by LMT upon exercise of the options. The number of Trust Units to be exchanged for each common share was to be determined based upon the ratio of dividends paid per IAT share to distributions paid per Fund Unit over the previous 12 months. The options were not exercised prior to their expiry on June 10, 2007. The agreement with LMT was terminated in September 2005. During the year ended December 31, 2007, 2,274,928 options with an exercise price of $1.42 expired. There were no outstanding options at December 31, 2008 or 2007.

(All tabular dollar amounts are stated in thousands of Canadian dollars, except per unit amounts)

10. Distribution to unitholders

Pursuant to the Declaration of Trust, income of the Fund is distributed on each distribution date in amounts determined by the Trustees, provided that the amount due and payable in any year shall not be less than the amount necessary to ensure that the Fund will not be liable to pay income tax under Part 1 of the Income Tax Act. During the year ended December 31, 2008, the Fund declared distributions to unitholders of $4.0 million (2007 - $4.8 million). The amounts and record dates of the distributions were as follows:

	2008		2007	
	Total	Per unit	Total	Per unit
March 31	$ 1,184	$ 0.17	$ 1,184	$ 0.17
June 30	1,184	0.17	1,184	0.17
September 30	1,184	0.17	1,184	0.17
December 31	488	0.07	1,254	0.18
	$ 4,040	$ 0.58	$ 4,806	$ 0.69

Of the distributions made in 2008, $130,000 (2007 – nil) was discretionary. The distribution of $0.5 million ($0.07 per Unit) (2007 - $1.3 million ($0.18 per Unit)) payable to unitholders of record on December 31, 2008 was paid on January 15, 2009 (2007 – January 15, 2008).

11. Related party transactions

AMB Canada

As of December 31, 2008, IAT had agreements with AMB Canada (formerly IAT Management Inc.), a wholly-owned indirect subsidiary of AMB, whereby AMB Canada provided property management, development, leasing and marketing, and operations and maintenance to IAT and IAT paid AMB Canada for such services. Headlands, a wholly-owned subsidiary of AMB, owned approximately 5.2% of the outstanding Units of the Fund until they were tendered to FrontFour on August 29, 2008.

The property management, development, and leasing and marketing service agreements were amended in September 2005 to have an initial ten-year term, expiring on September 14, 2015, with an automatic renewal for a second ten years. Previously, IAT's rights included the right to terminate the agreements at any time on 90 days' notice, subject to a termination fee based on a 2.25 multiple of the basic management fees payable for the most recently completed four quarters. Under the amended and restated agreements, during the first ten-year term, IAT could have exercised a no fault termination right in the event of a transaction that resulted in a change of control of IAT or, with respect to particular properties, a change of beneficial ownership of IAT's properties. During the second ten-year term, IAT would have had the right to terminate at any time with 90 days' notice. A termination fee would have been payable by IAT if such a termination resulted in the remaining properties generating an annual management fee of less than $0.8 million. Any such termination fee would have been based on a 2.25 multiple of the basic management fees payable for the most recently completed four fiscal quarters.

In addition, as of December 31, 2008, the Fund had engaged AMB Canada to provide administrative services to the Fund.

In December 2008, the Fund's Trustees and AMB Canada agreed to an internalization of the management and administration of the Fund where the asset management and operations would be assumed from AMB Canada and neither IAT nor AMB Canada would be required to pay a termination fee and IAT waived the right to require 12 months' notice. The transition was subsequently completed on February 27, 2009.

During the year ended December 31, 2008, IAT was charged a total of $1.4 million (2007 - $1.3 million) under the property management, development, and leasing and marketing service agreements. $1.0 million (2007 - $1.0 million) of these fees are included in operating costs and $0.4 million (2007 - $0.3 million) are included in leasing and marketing fees. The property management fees are included in operating costs and are recoverable from tenants.

During the year ended December 31, 2008, IAT was charged $0.7 million (2007 - $0.3 million) under the operations and maintenance services agreement. These fees are included in operating costs and are recoverable from tenants.

During the year ended December 31, 2008, the Fund was charged $5,000 (2007 - $2,000) for administrative services and reimbursements of incidental expenses incurred on its behalf by AMB Canada.

Rental income was earned from AMB Canada for space leased from IAT at one of its Vancouver buildings. During the year ended December 31, 2008, the rent paid by AMB Canada to IAT was $0.1 million (2007 - $0.1 million).

The amount due to AMB Canada included in accounts payable and accrued liabilities as at December 31, 2008 was $0.1 million (2007 - $0.2 million).

During the year ended December 31, 2008, Headlands, a wholly-owned subsidiary of AMB, received its pro-rated share of distributions declared by the Fund amounting to $0.1 million (2007 - $0.2 million). In August 2008, Headlands tendered its Units to a takeover offer and no longer holds any Units in the Fund.

FrontFour

Since August 29, 2008, for the year ended December 31, 2008, DSSS, a Delaware statutory trust managed by FrontFour, received or is owed, its pro-rated share of distributions declared by the Fund amounting to $0.5 million.

Since August 29, 2008, for the year ended December 31, 2008, FrontFour Holdings Inc., a wholly-owned Canadian subsidiary of FrontFour, received, or is owed, its pro-rated share of distributions declared by the Fund amounting to $0.2 million.

Since August 29, 2008, for the year ended December 31, 2008, managing members of FrontFour received $19,000 in director and Trustee fees from the Fund and were reimbursed approximately $6,000 for incidental expenses.

Other

For the year ended December 31, 2008, the Fund incurred fees of $0.5 million (2007 - $0.3 million) for legal advice and services to the law firm of Lawson Lundell LLP which are included in general and administrative expenses. The Secretary of the Fund is counsel with this law firm.

(All tabular dollar amounts are stated in thousands of Canadian dollars, except per unit amounts)

12. Commitments

Operating land leases

IAT leases land from the Government of Canada and local airport authorities at airports in Western Canada. These leases are for varied terms, in certain cases with rights of renewal and rights of first refusal, extending for periods expiring between 2016 and 2029. Lease amounts are normally subject to market adjustments every five years.

Future minimum operating lease payments, as at December 31, 2008, using current established rates, are as follows:

2009	$	3,376
2010		3,381
2011		3,385
2012		3,390
2013		3,391
Thereafter		28,369
	$	45,292

IAT's current land lease profile as at December 31, 2008 is as follows:

	Area of leased land (sq ft) (unaudited)		2009 land lease commitment	Airport authority leases	Lease expiry
Vancouver	2,133,902	$	2,564	9	2016-2029
Edmonton	395,796		165	2	2019-2023
Calgary	704,443		480	2	2017-2029
Saskatoon	161,442		36	1	2025
Winnipeg	334,398		131	1	2025
	3,729,981	$	3,376	15	

Under the terms of one of the Vancouver leases, IAT will pay a base rent and a percentage rent amount based on the operating income earned with respect to this lease. In addition, IAT has invested approximately $0.6 million in renovations to the facility being leased as at December 31, 2008 and expects to spend an additional $0.5 million under the terms of the ground lease agreement in 2009. If the airport authority requires the leased premises for future expansion of airport services, the airport authority may terminate the lease upon giving IAT 24 months' notice.

Put option on Joint Venture

The other party to the Joint Venture has an annual right to put its 50% interest in the Joint Venture to IAT at a price to be determined based on future cash flows pursuant to the terms of the Joint Venture agreement.

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13. Supplementary cash flow information

Operating Activites:		2008		2007
Deferred costs	$	167	$	(240)
Recoverable costs		(202)		(96)
Prepaid expenses and deposits		(59)		(258)
Accounts receivable		(304)		(100)
Accounts payable and accrued liabilities		(295)		237
Tenant deposits		(51)		(313)
Deferred revenue		113		325
Change in non-cash working capital	$	(631)	$	(445)

14. Financial instruments and risk management

Fair value of financial instruments

As of December 31, 2008, the fair value of the Fund's mortgage loans is approximately $14.0 million (2007 - $15.0 million). The fair value of the Fund's mortgage loans is estimated based on discounted future cash flows using current market rates for mortgages with similar terms and conditions, which range from 4.00% to 7.35%.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment. Changes in assumptions could affect estimates.

The Fund's short-term financial instruments, comprising accounts receivable, accounts payable and accrued liabilities and distribution payable to unitholders, are carried at amortized cost which, due to their short-term nature, approximates their fair value. Tenant deposits are non-interest bearing and are recorded at their present value. The difference between the amount collected from the tenant and this present value is recorded as deferred revenue.

The Fund has no financial assets or liabilities classified as held for trading or available for sale other than cash and cash equivalents.

Risk management

(a) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The Fund mitigates this risk by assessing tenant quality and credit risk on new lessees, collecting security deposits upon lease execution, and limiting exposure to any one tenant. Due to the current recessionary economic environment, the Fund continues to closely monitor accounts receivable and collections and endeavors to follow up promptly on all late payments.

As of December 31, 2008, IAT has 132 tenants (2007 – 135 tenants) and 70% of the Fund's revenue is derived from its operations at Vancouver International Airport (2007 – 72%), where 65% (unaudited) of its total net leaseable area resides (2007 – 65%). Currently, no one tenant occupies more than 7% of IAT's aggregate net leaseable area at all airports nor contributes more than 8% towards total rental revenues (2007 – 8% and 9%, respectively). With respect to cash and cash equivalents, the Fund deposits such short-term financial instruments with high-credit quality financial institutions as determined by credit rating agencies and believes the risk of loss to be low.

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(b) Interest rate risk

The Fund is exposed to interest rate risk on its borrowings. The Fund seeks to reduce its interest rate risk by staggering the maturities of its loans and by maintaining a balance between fixed and variable interest rates. As of December 31, 2008, IAT has mortgage loans amounting to $7.6 million (2007 – $2.2 million) on a floating rate, representing approximately 54.4% of the total mortgage loans outstanding at December 31, 2008 (2007 – 14.9%).

As a result of the Fund's variable interest rate mortgages, and the Fund's intention to renew mortgages as current mortgage terms expire, there is risk that interest paid by the Fund on its mortgage debt may fluctuate. The following interest sensitivity table outlines the potential impact of a 1% change in the interest rate on variable rate assets and liabilities for the year ended December 31, 2008. A 1% change is considered a reasonable level of fluctuation on variable rate assets and debts.

	Carrying amount		Interest rate	Income		Equity	
Cash and cash equivalents.........	$	3,426	+1%	$	34	$	34
Variable rate mortgages...........	$	7,635	+1%		(76)		(76)
				$	(42)	$	(42)
Cash and cash equivalents.........	$	3,426	-1%	$	(34)	$	(34)
Variable rate mortgages...........	$	7,635	-1%		76		76
				$	42	$	42

(c) Liquidity risk

Liquidity risk refers to the possibility that the Fund's cash or cash equivalents would be insufficient at any given time to meet its obligations with respect to working capital requirements, debt servicing, leasing costs and distributions to unitholders. The Fund's liquidity relies on its ability to collect cash flows from operating its property portfolio and the ability to refinance debt instruments as they mature under terms and conditions acceptable to the Fund. As part of its ongoing cash management and in light of the heightened uncertainties due to the global recession, the Fund mitigates its liquidity risk by maintaining an adequate cash balance, maintaining a line of credit, staggering debt maturities, promptly collecting outstanding receivables, limiting lease and other obligations, periodically reviewing actual and projected cash flows, and adjusting discretionary distribution payments and capital spending programs.

The Fund is committed to spending approximately $1.1 million on renovations to a property of which $0.6 million has been spent as of December 31, 2008 with the remainder expected to be spent in the first quarter of 2009. In addition, as at December 31, 2008, the Fund had accounts payable and accrued liabilities of $1.6 million (2007 - $1.5 million), distributions declared and payable of $0.5 million (2007 - $1.3 million), and undiscounted contractual long-term financial liabilities as follows:

(All tabular dollar amounts are stated in thousands of Canadian dollars, except per unit amounts)

	Payments Due				
	Total	2009	2010 - 2011	2012 - 2013	After 2013
Mortgage loans	$ 14,031	$ 2,929	$ 5,940	$ 2,710	$ 2,452
Operating leases	45,292	3,376	6,766	6,781	28,369
Asset retirement obligations	429	-	-	-	429
	$ 59,752	$ 6,305	$ 12,706	$ 9,491	$ 31,250

15. Capital management

The Fund's capital consists of debt, including mortgages and a line of credit, and unitholders' equity. The Fund's objectives in managing capital are to ensure adequate operating funds are available to maintain consistent and sustainable unitholder distributions, to fund leasing costs and capital expenditure requirements and to provide for resources needed to acquire new properties. Investments in and commitments of capital are generally approved by the Fund's board of Trustees and IAT's board of directors, as presented by management in an annual business plan in the case of working capital items and specific investment analysis and as presentations in other cases.

Various debt, equity and earnings distribution ratios are used to monitor capital adequacy and requirements. For debt management, interest coverage ratio and net debt to enterprise value are the primary ratios used in capital management. Other significant indicators include weighted average interest rate, debt average term to maturity, and variable debt as a portion of total debt. These indicators assist the Fund in assessing that the debt level maintained is sufficient to provide adequate cash flows for unitholder distributions and capital expenditures and in evaluating the need to raise funds for further expansion.

The Fund's equity consists of Units whose carrying value is impacted by earnings and unitholder distributions. Amounts retained in excess of the distributions are used to fund leasing costs, capital expenditure and working capital requirements. Management monitors distributions through various ratios to ensure adequate resources are available. These ratios include the proportion of distributions paid in cash, total distributions as a percent of distributable income and distributable income per unit.

The interest coverage ratio is calculated as net operating income plus interest income divided by interest expense. At December 31, 2008, the Fund's interest coverage ratio was 6.4x, reflecting its ability to cover interest expense requirements.

	2008	2007
Rental revenue	$ 18,467	$ 17,118
Operating expenses	12,882	10,450
Net operating income	5,585	6,668
Add: interest income	338	313
	5,923	6,981
Interest expense	$ 920	$ 1,084
Interest coverage ratio	6.4 x	6.4 x

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Net debt to enterprise value is a measure of the Fund's debt level compared to its market capitalization plus debt and is used by management to monitor the Fund's overall debt level. This ratio is calculated as total debt less cash and cash equivalents as a percentage of enterprise value, where enterprise value is based on the total number of outstanding Units multiplied by the period-end market price per Unit, plus debt less cash and cash equivalents.

	2008	2007
Outstanding units	6,966,368	6,966,368
Period-end unit price	$ 2.86	$ 7.10
Market capitalization	19,924	49,461
Total debt	14,031	14,961
Cash and cash equivalents	(3,426)	(5,329)
Enterprise value	$ 30,529	$ 59,093
Net debt to enterprise value	34.7%	16.3%

16. General and administrative expenses

For the year ended December 31, 2008, approximately $1.0 million was spent on financial advisory and legal expenses pertaining to the evaluation of a takeover offer by an affiliate of FrontFour and investigating capital investment opportunities. These one-time expenses are included in general and administrative expenses on the consolidated statements of earnings.

17. Segmented information

Management has determined that during the years ended December 31, 2008 and 2007, IAT operated within one business segment, which is the leasing of air cargo and related facilities in Canada.

18. Subsequent event

IAT Management LP completed the internalization of management services, replacing AMB Canada as property manager of IAT, including assumption of property, leasing, and operations and maintenance agreements, and as administrator of the Fund, assuming the Miller Road office lease from AMB Canada, hiring AMB Canada's Vancouver office employees, and purchasing approximately $42,000 of office assets from AMB Canada as at February 27, 2009. No termination fee was required to be paid by either party (see Note 11).

19. Comparative figures

The comparative figures have been reclassified to conform to the current year presentation.

IAT Air Cargo Facilities Income Fund

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